Canadian Pacific Limited

Transportation

Oil and Gas

Forest Products

Steel and Industrial Products

Real Estate

Other Businesses

Financial and Miscellaneous

1986
Annual
Report

Contents

1987 Annual Meeting

The Annual Meeting of Shareholders is to be held on Wednesday, May 6, 1987, at Le Château Champlain, Place du Canada, Montreal, Quebec, at eleven a.m., Montreal time.

		1986	1985	1984
		(dollars in millions, except amounts per share)		
Consolidated Data				
Income Items	Revenues	**$ 15,020.1**	$ 15,040.3	$ 14,635.1
	Net income from:			
	Transportation	**93.3**	108.4	177.9
	Oil and Gas	**39.1**	194.5	172.1
	Forest Products	**29.1**	(16.8)	(6.9)
	Steel and Industrial Products	**(65.4)**	(1.4)	(27.3)
	Real Estate	**28.9**	20.1	19.1
	Other Businesses	**68.3**	50.3	43.9
	Financial and Miscellaneous	**(5.6)**	(26.3)	(35.7)
	Discontinued Businesses	**(37.6)**	(76.1)	23.1
	Net income before extraordinary items	**150.1**	252.7	366.2
	Extraordinary items	**(230.4)**	—	—
	Net income after extraordinary items	**$ (80.3)**	$ 252.7	$ 366.2
Per Ordinary Share	Net income before extraordinary items	**$ 0.50**	$ 1.14	$ 1.70
	Net income after extraordinary items	**$ (0.27)**	$ 1.14	$ 1.70
	Market Price – High	**$ 20½**	$ 21¾	$ 17⅞
	(Toronto Stock Exchange) – Low	**$ 14**	$ 15⅞	$ 12⅜
	Shareholders' equity	**$ 19.25**	$ 20.31	$ 20.42
Rates of Return	Average capital employed	**4.7%**	5.9%	7.7%
	Average shareholders' equity	**2.5%**	4.8%	8.3%
Other information for the year ended December 31	Cash from operations	**$ 1,330.2**	$ 1,343.0	$ 1,163.9
	Capital expenditures	**$ 1,787.8**	$ 1,888.5	$ 1,331.3
	Average number of employees	**93,800**	123,400	119,800
Other information as at December 31	Total assets	**$ 17,698.7**	$ 21,331.5	$ 18,670.7
	Debt:equity proportion	**43:57**	46:54	44:56
Non-Consolidated Data	Net income before extraordinary item	**$ 252.9**	$ 233.6	$ 263.2
	Net income after extraordinary item	**$ 2.0**	$ 233.6	$ 263.2
	Per Ordinary Share:			
	Net income before extraordinary item	**$ 0.85**	$ 1.05	$ 1.22
	Net income after extraordinary item	**$ 0.01**	$ 1.05	$ 1.22
	Dividends	**$ 0.48**	$ 0.48	$ 0.47
	Debt: equity proportion	**24:76**	21:79	25:75
Ordinary Share Capital	Number of shares outstanding (000):			
	Average for the year	**298,259**	220,781	214,987
	At year end	**299,545**	297,706	214,987
	Total number of shareholders at year end	**78,892**	83,156	46,025

Canadian Pacific in Profile

Transportation

(in millions)	1986	1985
Revenues	**$4,255**	$4,106
Net Income after Minority Interest	**$ 93**	$ 108

CP Rail

Soo Line Corporation

CP Ships

CP Trucks

Oil and Gas

(in millions)	1986	1985
Revenues	**$ 717**	$1,137
Net Income after Minority Interests	**$ 39**	$ 195

PanCanadian Petroleum Limited

Forest Products

(in millions)	1986	1985
Revenues	**$2,241**	$2,162
Net Income (loss) after Minority Interests	**$ 29**	$ (17)

CIP Inc.

Great Lakes Forest Products Limited

Steel and Industrial Products

(in millions)	1986	1985
Revenues	**$3,487**	$3,289
Net Income (loss) after Minority Interests	**$ (65)**	$ (1)

The Algoma Steel Corporation, Limited

AMCA International Limited

Employees 1986	1985	Products/services/markets	Locations
25,600	27,300	Provides rail and intermodal transportation of agricultural, fabricated and bulk commodities over a 15,000-mile railway system serving most of the principal centres of Canada and connecting with major U.S. railroads.	Head office: Montreal. Regional offices: Toronto, Vancouver. Operating centres across Canada, and sales offices in the United States and overseas.
6,700	7,500	55.7% owned, provides rail service transporting resource and manufactured commodities over 7,800 miles of line in 12 midwestern states. Truck operations include intermodal and common carrier road services.	Head office: Minneapolis, Minnesota.
2,200	2,500	Centennial Shipping Limited, a wholly-owned subsidiary, holds 57% of Canada Maritime Limited, which provides container services using four vessels on the North Atlantic. Ports of call are Montreal, Felixstowe (England), Le Havre, Antwerp and Hamburg. Other services include a North Atlantic conventional ro/ro service and a container service linking Montreal with the Mediterranean.	Head office: Hamilton, Bermuda.
		Canadian Pacific (Bermuda) Limited, a wholly-owned subsidiary, owns and operates diversified fleet of 28 tankers and bulk carriers around the world under a variety of commercial arrangements.	Head office: Hamilton, Bermuda.
6,800	6,600	CP Express & Transport, a wholly-owned subsidiary, offers full range of road transport services, including less than truckload, parcel delivery, truckload, specialized bulk systems, household and commercial moving, and courier.	Head office: Toronto. More than 200 terminal locations throughout Canada and 5 terminals in the Eastern United States.
		CanPac International Freight Services, wholly-owned, engages in customs brokerage, international freight forwarding by land, sea and air for Canadian export and import trade, bulk liquid storage and warehousing.	Head office: Montreal. Branch offices and operations in Nova Scotia, Quebec, Ontario, Manitoba, Alberta and British Columbia, and agents world-wide.
1,500	1,500	87.1% owned, is one of the largest Canadian-owned hydrocarbon businesses. It is engaged in the exploration for and production, transportation and wholesale marketing of crude oil, natural gas, natural gas liquids and sulphur. Products are sold primarily in Canadian and U.S markets.	Head office: Calgary. Other offices: Denver, Houston, and London, England. Exploration and development activities primarily in Western Canada, but also in the United States and the United Kingdom.
10,900	11,300	100% owned, is one of the world's largest producers and marketers of newsprint, supplying publishers in more than 35 countries. Also produces pulp, packaging materials, tissue products, lumber and building materials. Markets are located in North and South America, Western Europe and Asia.	Head office: Montreal. Facilities are located in Newfoundland, Nova Scotia, New Brunswick, Quebec, Ontario, Saskatchewan, Alberta and British Columbia.
5,000	5,500	54.3% owned, produces mainly kraft pulp, newsprint, fine papers and stud lumber. Principal markets are in the United States.	Head office: Thunder Bay, Ontario. Facilities are at Thunder Bay and Dryden, Ontario, with wood resources nearby.
8,700	9,700	53.8% owned, is a fully integrated steel producer. Principal product lines are sheet and strip, plate, seamless tubulars, structural shapes and rails, with markets in Canada and the United States.	Head office and steelworks: Sault Ste. Marie, Ontario. Mining operations are in Ontario, Michigan and West Virginia.
10,900	16,700	50.6% owned, is a world-wide corporation producing a broad range of steel based industrial products with significant engineering content. AMCA also provides engineering/construction services.	Head office: Hanover, New Hampshire. Divisions and subsidiaries are located primarily in the United States and Canada. AMCA also has manufacturing and distribution facilities in Europe.

Real Estate

(in millions)	1986	1985
Revenues	**$ 333**	$ 280
Net Income after Minority Interests	**$ 29**	$ 20

Marathon Realty Company Limited

Other Businesses

(in millions)	1986	1985
Revenues	**$1,754**	$1,743
Net Income after Minority Interests	**$ 68**	$ 50

Canadian Pacific Hotels Corporation

Maple Leaf Mills Limited

Fording Coal Limited

CP Telecommunications

Syracuse China Corporation

Processed Minerals Incorporated

Steep Rock Resources Inc.

Financial and Miscellaneous

(in millions)	1986	1985
Revenues	**$ 186**	$ 196
Net Income (loss) after Minority Interest	**$ (6)**	$ (26)

Canadian Pacific Securities Limited

Canadian Pacific Consulting Services Ltd.

Corporate Activities

Other Operations

Employees 1986	1985	Products/services/markets	Locations
700	700	100% owned, develops, owns and manages income-producing properties including shopping centres, and office, industrial, aviation-related and residential buildings. Also holds business and industrial parks as well as commercial lands.	Head office: Toronto. Properties are located across Canada and in the United States. Regional offices are in Vancouver, Calgary, Toronto, Montreal, Halifax, Chicago, San Francisco, Atlanta and Dallas.
5,400	5,600	100% owned, operates 19 first class hotels, which it owns, leases or manages.	Head office: Toronto. Hotels are in city centre and resort locations across Canada and in West Germany and Israel.
4,300	4,200	100% owned, produces and markets industrial and consumer flour and flour-based products, including baked goods; operates one of the largest rendering businesses in Canada and a fully integrated poultry business in Ontario; markets full range of animal and poultry feeds and merchandises and distributes grain.	Head office: Toronto. Plants in nine Canadian provinces, the Caribbean and Europe.
1,300	1,300	100% owned, develops and processes metallurgical and thermal coal reserves. Holds large undeveloped coal deposits in Western Canada. Markets include blast furnace steel producers, utilities and other coal consumers world-wide.	Head office: Calgary. Mine sites in Alberta and south-eastern British Columbia.
1,800	1,900	Provides, in partnership with Canadian National, a comprehensive communications service covering a full range of Voice, Data, Text and Messaging services across Canada, with connections to the U.S. and overseas.	Head office: Toronto. Regional offices: Vancouver, Toronto and Montreal. Operations centres and sales offices across Canada.
700	800	100% owned, manufactures commercial chinaware mainly in the United States. Markets include commercial and institutional segments of the food service industry.	Head office: Syracuse, New York. Plants are located in Syracuse, Pennsylvania and Quebec.
400	400	100% owned, produces salt for agricultural use, water softener and human consumption, and wollastonite and tripoli for industrial applications.	Head office: Hutchinson, Kansas. Salt facilities are in Hutchinson and Florida, wollastonite facilities are in New York State, and tripoli facilities are in Missouri and Oklahoma.
60	60	79.6% owned, manufactures wide range of calcite products for industries in Eastern Canada and the United States; has interests in other non-metallic minerals, undeveloped iron ore properties and in exploration for precious metals in Ontario.	Head office: North York, Ontario. Manufacturing facilities: Perth, Ontario.
—	—	100% owned, raises monies through bank loans, short term promissory notes and medium and long term debt in order to provide financing for various companies in the Canadian Pacific group. Also active in domestic and international money markets.	Head office: Toronto.
100	100	100% owned, provides international consulting in engineering, economics and management in the areas of transportation, communications, hotels and resource development.	Head office: Montreal. Offices in Canada and overseas.
400	500	Consist mainly of interest, exchange and other corporate related revenue and expenses of CP Limited; includes centralized corporate service activities.	
300	300	Include various partnerships and wholly-owned subsidiaries such as Brunterm Limited, Arion Insurance Company Limited, Telecommunications Terminal Systems and The Toronto, Hamilton and Buffalo Railway Company.	

Robert W. Campbell

The Company's consolidated net income before extraordinary items amounted to $150.1 million, or $0.50 per Ordinary share, in 1986, compared with restated earnings of $252.7 million, or $1.14 per share, in 1985. Including extraordinary items, the Company recorded a consolidated net loss of $80.3 million, or $0.27 per Ordinary share, in 1986.

The restatement of 1985 results arose from the retroactive adoption by PanCanadian Petroleum of an accounting guideline recommended by the Canadian Institute of Chartered Accountants for applying the full cost method of accounting. For 1986, the primary effect of this change was an unusual charge of $82.5 million against consolidated earnings, reflecting CP Limited's share of PanCanadian's ceiling test write-down on its non-Canadian operations resulting from the decline in world oil prices.

Extraordinary charges of $230.4 million consisted of a net charge of $362.5 million representing the write-down in the value of certain assets and net gains totalling $132.1 million on the sale of investments.

Other significant factors during the past year of a non-recurring nature included a substantial restructuring charge by Soo Line Corporation and a charge by AMCA resulting from lower benefits because of changes flowing from United States tax reform.

At the non-consolidated level, the Company's net income before an extraordinary item increased to $252.9 million, or $0.85 per Ordinary share, from $233.6 million, or $1.05 per share, in 1985. Out of these earnings, the Company paid dividends of $0.48 per Ordinary share in both 1986 and 1985. The weighted average number of Ordinary shares outstanding was 298.3 million, up from 220.8 million in 1985.

One of the main developments affecting the Company's consolidated results was the drop in world oil prices, despite the benefits of lower fuel and energy costs. Not only did PanCanadian's earnings fall in 1986, but Algoma Steel also suffered because of reduced demand for its tubular products which are used for oil and gas drilling.

The year however saw some favourable developments for most other businesses, especially Bulk Shipping Operations and the Forest Products group. A recovery in tanker markets and lower depreciation charges following the write-down in the value of the fleet helped reduce losses from Bulk Shipping, and both CIP Inc. and Great Lakes Forest Products benefitted from strengthening markets, particularly for kraft pulp, and greater cost efficiencies. Also, earnings from CP Trucks and Marathon Realty reached record levels during the year. Marathon's income growth was derived from higher office building and shopping centre rentals and increased land sales, as that company continued its program of selective expansion and rationalization.

The disappointing earnings of the past few years have led to the implementation of new strategies to meet the Company's basic objective – to improve long term shareholder values. The year 1986, although disappointing in terms of earnings, was a watershed year in implementing the new strategies.

In the 1960's and 1970's, the driving forces behind the Company's performance were expansion and diversification. In the early 1980's, the focus shifted to consolidation and improved productivity as means of achieving profitability in a recessionary environment. However, it became increasingly evident that the mix of businesses left the Company too vulnerable to certain conditions beyond its control. The decline in oil prices and continued sluggish commodity markets affecting both resource and transportation segments have impacted heavily on profits. Commencing in 1985 a series of steps were taken to position the Company for the future. In December of 1985 CP Limited and Canadian Pacific Enterprises were merged, providing the basis for an effective restructuring program. The first important step during 1986 was the undertaking of a comprehensive review of assets and operations. The review ended with the

W.W. Stinson

write-down in the value of the shipping fleet and certain assets of Algoma Steel, which had become permanently impaired or abandoned, and with the reduction to estimated realizable value of certain operations of AMCA due to their restructuring through sale, liquidation or rationalization. As detailed in the following Review of Operations section, both Algoma and AMCA have embarked on extensive programs to fortify their businesses.

Holdings in Fording Coal and AMCA were consolidated through the acquisition of Cominco's 40% interest in Fording in February, giving CP Limited 100% ownership of Fording, and the purchase of Algoma's 34.5% interest in AMCA in August, thus increasing the Company's direct ownership of AMCA to 50.6%.

The major decisions in 1986 were to sell the Company's investments in Cominco and Canadian Pacific Air Lines. The divestment of the Cominco interest in October terminated the Company's exposure to base metal and fertilizer markets, and the sale of the airline to Pacific Western Airlines, announced in December and effective January 30, 1987, was a timely move given the airline's past performance and the general outlook under deregulation. The sale of these two investments not only has allowed the Company to sharpen its focus, but also enhanced the Company's financial condition.

In other areas, operations were or are being rationalized, restructured or sold. The Soo Line, in the wake of changing business patterns and the consolidation of operations, has announced a major restructuring and cost-cutting program. Stand-alone, accountable divisions, including one currently for sale, have been established and employment levels are being further rationalized. Facing regulatory change, CP Rail is pursuing several strategies, including re-organizing and rationalizing operations and limiting capital spending. In these and other cases, the earnings potential of assets is being monitored closely, and appropriate changes have been or will be made in order to meet specified targets and future plans.

Although the steps already taken to reposition and solidify Canadian Pacific point to a better financial performance in 1987, more remains to be accomplished if the Company is to produce returns that meet shareholder expectations.

Over the next few years the principal aim will be to increase significantly the Company's return on equity. To achieve this goal will require that the businesses comprising Canadian Pacific are leaders in their respective fields. Emphasis will continue on reducing the Company's dependence on cyclical industries and strengthening the asset mix. The Company will have the financial flexibility both in the parent company and the growth-oriented subsidiaries to capitalize on profitable opportunities as they arise.

The Company has prime and diversified properties and an excellent reputation in international trade and financial circles. Significant advances have been made over the past few years in the areas of productivity, cost reduction and market positioning throughout the organization. However, the ultimate success of the Company depends on the strength of its management and the skills and dedication of the people of Canadian Pacific. On behalf of the Directors, we wish to acknowledge their contribution during the past year.

For the Directors,

Robert W. Campbell
Chairman

W.W. Stinson
President and
Chief Executive Officer

Montreal, March 9, 1987

Transportation

CP Rail

in millions	1986	1985	1984
Revenues	$2,571.9	$2,519.1	$2,559.1
Net income	119.4	133.4	185.5

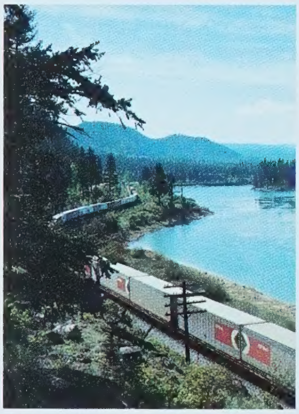
Although grain traffic recovered from the drought-affected levels of 1985, CP Rail's net income declined further in 1986, due to weakness in other freight traffic and higher expenses.

Revenues increased $52.8 million over 1985, due primarily to increased grain, container and wood pulp revenue, partially offset by lower revenue from coal, iron and steel, liquefied petroleum gas, potash and sulphur. In 1985, revenues fell $40.0 million from 1984, as the decline in grain revenues more than offset the benefits of improved rates earned from other freight.

Total expenses amounted to $2,452.5 million in 1986, $2,385.7 million in 1985 and $2,373.6 million in 1984. Higher interest charges, increased labour rates and greater costs of materials were primarily responsible for the additional expenses over the period. Following an increase in 1985, fuel costs were significantly lower in 1986 because of reduced prices.

Negotiations with the major railway unions to replace contracts which expired December 31, 1986 broke off early in 1987. Conciliators were appointed in an attempt to reach a settlement.

The transportation industry will face significant regulatory changes under the proposed revision of the National Transportation Act. CP Rail welcomes change that will lead to greater competition, but there are certain elements of the proposed legislation that create concern. Heightened competition will exert downward pressure on rates and, consequently, revenues. This will make it imperative for the railways to gain sufficient flexibility to tailor their plant to match demand and to avoid being constrained by regulatory procedures in their ability to streamline operating practices and introduce service innovations and new productivity-generating technology. If they do not, profit margins will suffer. Additional factors in the outlook are the current U.S.



CP Rail intermodal train (above) east of Kamloops, B.C. Electronic display board (right) in Winnipeg dispatch centre helps traffic controllers coordinate train movements over 1,100 route kilometres.

protectionist stance which could impact a number of commodities; the prospects of freer trade which would have a major effect on traffic patterns; and the expectation of only moderate economic growth, especially for bulk commodities.

To allow for a more flexible response to market opportunities and competitive pressures, CP Rail has adopted several strategies. The railway recently realigned its marketing and operating functions into two business units – one based in Eastern Canada to develop intermodal freight systems and one situated in the West to focus on heavy haul freight business. Capital spending needs are being constantly assessed, increasingly intense marketing programs are being pursued and costs are being contained as much as possible without compromising CP Rail's safety record, which in 1986 was the best in its history and the best among major North American railways.

Soo Line Corporation

in millions	1986	1985	1984
Revenues	$889.7	$848.1	$430.4
Net income (loss) after minority interest	(33.5)	(8.7)	12.9

Soo Line's results for the past year reflected major steps to strengthen the organization following the acquisition of the Milwaukee Road early in 1985.

Subsequent to the merger of the Milwaukee, Soo Line accelerated the process of integrating and rationalizing its greatly expanded system. The most significant moves that impacted 1986 results were the decisions to make further reductions in the size of its work force and to dispose of surplus freight equipment. Although employment levels have already been reduced by 1,900, or 23%, through voluntary separations since acquiring the Milwaukee, reductions of another 800 employees were begun in the fourth quarter and will continue over the next two years. Also, Soo Line has identified 5,200 owned and leased cars which are no longer needed for its operations. As a result of these measures, Soo Line incurred a charge in 1986 of $113.5 million before tax, of which $63.3 million represented CP Limited's share. Of Soo Line's charge, $86.8 million relates to the future employment reductions and $26.7 million is in respect of the surplus freight equipment.

Soo Line's revenues in 1986 were up $41.6 million over 1985. Included in 1986 revenues was a gain of $13.9 million on sale of Soo Line's headquarters building; after income tax the gain amounted to $7.2 million. The balance of the revenue increase stemmed from inclusion of Milwaukee for a full year in 1986 as well as the effects of translating Soo Line's accounts into Canadian dollars. Soo Line's traffic volume overall fell 2% in 1986, and rates continued under pressure. Soo Line's revenues in 1985 were $417.7 million more than in 1984, due to the inclusion of the Milwaukee.

Expenses of Soo Line totalled $949.8 million in 1986, $863.7 million in 1985 and $407.2 million in 1984. The additional expenses in 1986 reflected the restructuring charge, inclusion of Milwaukee for a full year in 1986 and the impact of exchange rates, partially offset by the benefits of lower fuel prices and operations improvements. The acquisition of the Milwaukee accounted for most of the expense escalation in 1985 over 1984. Not only were operating expenses higher, but interest charges also increased because of additional financing to acquire the Milwaukee.

Soo Line is currently seeking buyers for one of its stand-alone divisions. Soo Line expects that its restructuring and cost-cutting programs will restore profitability in 1987, despite the likelihood of continued competitive pressures.

CP Ships

in millions	1986	1985	1984
Revenues	$368.0	$352.9	$340.2
Net income (loss) after minority interest	0.1	(19.1)	(23.6)

Container Operations

Income from Container Operations amounted to $8.0 million in 1986, compared with $13.4 million in 1985 and $2.1 million in 1984. Included in income for 1985 was a provision for a loss of $6.4 million on the disposal of a container vessel.

Whereas 1985 witnessed robust growth in container traffic and rates on the westbound trade, there was a downturn in westbound carryings in 1986 reflecting weaker trading conditions and the lower value of the U.S. dollar. This, combined with erosion of rates on eastbound traffic, contributed to the lower earnings from Container Operations in 1986.

Early in 1986 Canada Maritime Limited, jointly with two other shipping companies, began a new container service between Montreal and certain ports on the Mediterranean Sea. This service, which is based on a slot charter agreement using two of the company's vessels, achieved break-even results during 1986 and is expected to show improvement in 1987.

Based on U.S. dollar weakness and continued growth of the West European economies, eastbound traffic is anticipated to recover in 1987 thus permitting more stable rates on that traffic. The softness in westbound volumes, however, is expected to persist.

Bulk Shipping Operations

A loss of $7.9 million from Bulk Shipping was down from losses of $32.5 million in 1985 and $25.7 million in 1984. Included in these amounts were net losses on sales of vessels of $1.1 million in 1986, $6.0 million in 1985, and $3.9 million in 1984. Over the past three years nine vessels were sold, reducing the fleet to twenty-eight vessels by year-end 1986.

Revenues totalled $99.3 million in 1986, $91.5 million in 1985 and $101.0 million in 1984. The dip in 1985 stemmed from particularly depressed shipping markets, partially offset by income from settlement of a charter dispute. Despite fewer vessels, revenues in 1986 recovered due to a gradual improvement in tanker markets sparked by increased activity in the oil trade and some reduction in surplus tonnage. Certain specialized markets, such as vegetable oil and chemical trades, also showed strength.

Excluding losses on vessel sales, expenses were $106.1 million in 1986, $118.0 million in 1985 and $122.8 million in 1984. While the smaller fleet and various cost reduction measures were contributing factors, the significant expense reduction in 1986 reflected primarily reduced depreciation expense following the write-down in the value of the fleet.

Although shipping markets may continue to register gradual improvement in 1987, excess capacity and aggressive competition will most likely prevail. In light of this, Bulk Shipping will continue its strategy of selective vessel disposal, cost rationalization and development of specialized market niches.

CP Trucks

in millions	1986	1985	1984
Revenues	$425.0	$385.7	$373.4
Net income	7.3	2.8	3.1

Canadian Pacific Express & Transport Ltd.

Net income from CP Express & Transport increased sharply to $6.1 million in 1986, from $1.5 million in 1985 and $1.7 million in 1984.

The General Commodities division contributed most of the improvement in 1986. The division returned to good profitability, despite a year of continuing turbulence in the industry. This was the result of revenue growth, and the positive impact of the cost controls and re-organization programs instituted over the past two years.

The Specialized Commodities division maintained steady growth, led by record performances by CANPAR and Highland. Bulk Systems was adversely affected by a labour dispute in the British Columbia forest industry, partially offset by the acquisition of a petroleum hauling business in Ontario.

Notwithstanding continued competitive pressures and further industry rationalizations, the General Commodities division should benefit from its broad customer base, national coverage and low labour costs in sustaining a growing market reach. The Specialized areas should record another year of expansion, progress and profitability.

CanPac International Freight Services Inc.

Net income amounted to $1.2 million in 1986, compared with $1.3 million in 1985 and $1.4 million in 1984.

CP Express & Transport triple trailer vehicle (above) at Lachine, Que. terminal. CANPAR terminal in Toronto (right) is biggest and busiest in CP Trucks' fastest-growing division.

Oil and Gas

PanCanadian Petroleum Limited

in millions	1986	1985	1984
Revenues	$717.0	$1,137.1	$1,055.4
Net income after minority interests	39.1	194.5*	172.1*

*Restated

The decline in world oil prices in 1986 left its mark on PanCanadian's net income. Earnings in 1986 also reflect an unusual charge of $94.8 million (or $82.5 million at CP Limited's level), representing a ceiling test write-down on PanCanadian's non-Canadian operations. This charge resulted from the retroactive adoption of the change in the full cost method of accounting followed by PanCanadian as detailed in Note 2 to the financial statements of this Report.

CP Limited's income from PanCanadian is after charges of $13.4 million in 1986 and $1.2 million in 1985, representing the amortization of the write-up of PanCanadian's assets resulting from the merger of CP Limited and Enterprises at the end of 1985.

PanCanadian's revenues declined $420.1 million in 1986 reflecting lower prices for crude oil, and reduced prices and decreased production of natural gas and natural gas liquids. Steps by the Organization of Petroleum Exporting Countries (OPEC) to regain market share led to an over-supply of crude oil, forcing world oil prices down sharply in the first half of 1986. In Canada, the posted prices for oil declined from a high of over $37 per barrel in January 1986 to a low near $15 in July 1986. During the last quarter of 1986 posted prices recovered to a range from $20 – $22 per barrel. Reduced oil prices and surplus conditions for natural gas increased competition among gas suppliers, substantially depressing the price of natural gas during 1986. In 1985, revenues were up $81.7 million over 1984, due to greater production of all products and improved prices for crude oil and plant products, partly offset by reduced natural gas prices.

Included in PanCanadian's results were gains from the purchase of investment tax credits and income tax losses from affiliated companies in 1984 and 1985. These gains amounted to $2.1 million in 1984, $11.5 million in 1985 and $15.1 million in 1986. In addition, the exercise of an option on a methanol project generated income of $10.8 million in 1986.

Pump jack (above) in southern Alberta. Maps showing land ownership and well status (right) are updated daily at PanCanadian's head office in Calgary.

Total expenses, excluding the ceiling test write-down, amounted to $575.4 million in 1986, down from $831.6 million in 1985 and $767.7 million in 1984. Aside from lower income taxes in 1986, expenses decreased reflecting the rate reduction in and subsequent elimination of the Petroleum and Gas Revenue Tax as well as lower operating expenses, due to reduced volume and costs related to Empress plant liquids, lower mineral reserve taxes and decreased Syncrude expenses. In 1985, expenses were up over 1984. This was the result of higher operating costs from a greater number of producing properties, increased volumes of extracted natural gas liquids, increased depletion charges and higher taxes.

PanCanadian's net capital expenditures fell to $172.5 million in 1986 from a record $423.1 million in 1985. As with the whole industry, the reduced cash flow resulting from the oil price decline led to a curtailment of exploration and drilling activity. To alleviate this problem, the governments of Canada, Alberta and Saskatchewan modified their taxes and royalty regimes. This included the early removal of the Petroleum and Gas Revenue Tax, effective October 1, 1986, the introduction of incentive programs for exploration and development activities, and reductions in provincial royalty rates.

The move to a deregulated market, starting with oil in mid-1985 and gas late in 1986, has subjected the Canadian oil and gas industry to the global forces of demand and supply. The outcome so far for oil has been lower and highly volatile prices. Natural gas prices have not changed as sharply. In recent months, however, with OPEC's accord on production cuts, world oil prices have been on an upward trend and Canadian prices have risen accordingly. To sustain this increase, it is important that world oil stocks shrink and OPEC members adhere to their respective quotas.

Forest Products

CIP Inc.

in millions	1986	1985	1984
Revenues	$1,602.0	$1,569.8	$1,594.6
Net income (loss) after minority interests	12.9	(16.6)	(13.8)

Improved markets, together with cost reductions, made 1986 a profitable year for CIP Inc.

After falling in 1985, CIP's revenues increased $32.2 million in 1986, due principally to steady recovery in selling prices and increased volume of pulp over the seriously depressed levels of 1985. Volumes were also higher in the packaging division, and lumber prices were better, although there was a significant loss of lumber volume because of the five-month strike in the British Columbia forest industry. Newsprint markets began to strengthen in the latter part of 1986 and allowed some price increases, with the result that sales for the year as a whole were down only marginally from 1985.

Included in CIP's results over the past three years were gains from the sale to PanCanadian of investment tax credits and tax losses. These gains amounted to $9.6 million in 1986, $10.5 million in 1985 and $11.0 million in 1984.

Total expenses were $1,586.5 million in 1986, $1,588.2 million in 1985 and $1,614.6 million in 1984. Over the three years, cost efficiencies and lower interest charges, notably in 1986, played major roles in holding down expenses. Reduced interest charges arose primarily from debt repayments, most of which were met by an equity injection provided by CP Limited.

During 1986 CIP continued an active modernization and replacement program at several of its facilities. Projects, which will contribute to cost savings upon completion in 1987, involve CIP's mills in New Brunswick, Quebec and British Columbia.

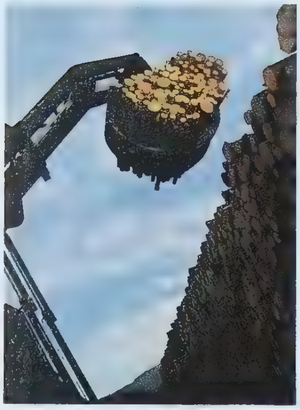
Present signs for 1987 indicate continued favourable market conditions for pulp, newsprint, lumber and packaging products. Sales of softwood lumber, however, are expected to suffer because of the imposition of the 15% export tax to head off initiatives in the U.S. to impose a 15% tariff on this product. The year will also bring negotiations on new labour contracts at several of CIP's key pulp and paper operations.

Great Lakes Forest Products Limited

in millions	1986	1985	1984
Revenues	$637.6	$591.2	$603.3
Net income (loss) after minority interests	16.3	(0.2)	6.8

Earnings from Great Lakes showed significant improvement in 1986. As with CIP, stronger markets and increased cost efficiencies produced the upturn.

Great Lakes' revenues in 1986 increased $46.4 million over 1985. Record shipments of kraft pulp and fine papers, a greater exchange premium on U.S. dollar sales and recovery of selling prices all contributed to the revenue growth. After plummeting in 1985, pulp prices began to recover in the second quarter of 1986, as markets absorbed



Pulp logs (above) in Great Lakes Forest Products' wood yard are converted into fully-bleached kraft pulp (right) shown coming off pulp drying machine in Thunder Bay mill.

additional North American capacity and offshore competition diminished reflecting the decline in value of the U.S. dollar against world currencies. Steadily improving markets for fine papers led to increased shipments and modest price increases. Although newsprint markets remained competitive throughout 1986, a price increase was successfully implemented in the fourth quarter, the first increase since mid-1984. Revenues from stud lumber and waferboard were lower in 1986. In comparing 1985 with 1984, revenues of Great Lakes fell $12.1 million, mainly because of depressed selling prices, particularly for kraft pulp and fine papers. Shipments of newsprint, kraft pulp and stud lumber were also lower.

Total expenses of Great Lakes amounted to $607.6 million in 1986, compared with $591.0 million in 1985 and $585.5 million in 1984. In 1986, employment rationalization and other measures to reduce costs and improve operating efficiencies more than offset the additional expenses associated with greater production levels. The expense increase of $5.5 million in 1985 over 1984 was due largely to higher labour, material and selling costs.

During 1986 Great Lakes closed its waferboard plant following unsuccessful attempts to gain support from unions to make the operation cost competitive. In the midst of government actions regarding the imposition of an export tax, Great Lakes closed temporarily its stud lumber mill at Thunder Bay, during which time modifications aimed at reducing costs will be made and the viability of this operation will be reassessed. In partnership with several newspaper publishers, Great Lakes continued development work on a proposed newsprint mill in the State of Washington. Although construction of the mill was postponed in 1985, the company is hopeful that the viability of the project will be enhanced with further improvement in newsprint markets.

The improving trend for forest products is expected to continue in 1987, as demand grows moderately and the weaker North American currencies remove some of the advantages previously enjoyed by offshore suppliers. Like CIP, Great Lakes will also be involved in labour negotiations in 1987.

Steel and Industrial Products

The Algoma Steel Corporation, Limited

in millions	1986	1985	1984
Revenues	$1,093.6	$1,178.4	$1,107.0
Net income (loss) after minority interests	(45.5)	(7.6)	(26.4)

The steep decline in world oil prices in 1986, which led to curtailments in North American oil and gas drilling programs, caused a 70% reduction in shipments of prime tubular steel produced by Algoma Steel. This development seriously impaired Algoma Steel's performance.

Following improvement in 1985, Algoma's revenues declined $84.8 million in 1986, reflecting deterioration in product mix. Although total steel shipments were unchanged from 1985, decreases in higher valued tubular and rail volumes were offset by low margin semi-finished and offshore shipments. The revenue growth of $71.4 million in 1985 over 1984 came chiefly from increased volume and an improved product mix.

Total expenses of Algoma were $1,152.1 million in 1986, compared with $1,178.0 million in 1985 and $1,146.4 million in 1984. Improvements in operating efficiencies helped to mitigate the increase in expenses in 1985 and such programs continued in 1986.

Progress continues towards achieving the objectives set out in Algoma's "Program of Action", which was implemented in 1986 in order to stabilize its financial position and restore profitability. A review of all assets was undertaken, write-downs occurred and assets were sold, particularly Algoma's 34.5% interest in AMCA. Long term debt was reduced with the proceeds from the sale of the investment in AMCA and from an issue late in the year of additional equity. Capital spending is being restricted in keeping with the requirement for cash conservation; construction on three major projects has been deferred pending settlement of new labour contracts in 1987. Several measures are being taken to curtail costs, such as the restructuring of Algoma's iron ore operations, lowering coal mine production costs and increasing steam coal sales, and improving manufacturing efficiency and product quality. The move to 100% continuous casting is under way.

As for labour, wage and benefit reductions were implemented for salaried employees, and discussions were initiated with the steelworker unions toward early negotiation of new agreements to replace those which expire at the end of July 1987.

Algoma's restructuring program will begin to show benefits in 1987, although the full impact will not be evident until 1988. Also, markets are showing gradual improvement, and a better product mix and increased efficiencies should result as the new No. 2 seamless tube mill comes on stream in 1987. However, the achievement of a satisfactory labour agreement is a key element in Algoma's restructuring.

AMCA International Limited

in millions	1986	1985	1984
Revenues	$2,421.8	$2,146.9	$1,952.6
Net income (loss) after minority interests	(20.0)	6.2	(0.9)

Weakness in the energy and capital goods sectors, coupled with a non-recurring charge to income, led to deterioration in AMCA's results in 1986. AMCA's charge, which amounted to $29.9 million, represented a reduction in benefits previously recorded because of changes stemming from tax reform legislation in the United States.

AMCA's results also included refunds of $10.7 million in 1986 and $12.7 million in 1984 in respect of surpluses in its Canadian pension funds.

CP Limited's share of AMCA's results incorporates dividend income from its holding of AMCA's preferred shares. This income amounted to $9.9 million in 1986, $7.1 million in 1985 and $0.9 million in 1984. In August 1986 Canadian Pacific acquired Algoma's 34.5% interest in AMCA's common stock, bringing its direct ownership of AMCA to 50.6%.

In order to strengthen the company, AMCA undertook a major restructuring program in 1986. The program, which resulted in a significant charge included in CP Limited's extraordinary items, involves the sale of AMCA's construction products unit, the disposal, liquidation or consolidation of several smaller businesses in Canada and the United States, and a reduction in corporate overhead. When completed in 1987 the program is expected to generate approximately U.S. $280 million, which will be used to reduce debt and redeem certain preferred shares as the opportunity arises.

Among AMCA's businesses, the Machine Tools segment suffered in 1986 from the general slowdown in orders for capital goods in the United States, and the Energy and Engineering segment was adversely affected by the drop in oil prices. AMCA's results in 1985 were better than in 1984, due principally to a combination of volume growth, cost reductions and rationalizations.

There are as yet no signs of any significant pick-up in the North American capital goods sector over the near term. Nevertheless, some improvement in other markets, together with AMCA's restructuring program and the related positive impact on interest expense, should contribute to a much better year for AMCA in 1987.

AMCA subsidiary Cherry-Burrell manufactures packaging equipment for refrigerated milk and juice products at Cedar Rapids, Iowa, plant (right). Equipment is shown above in operation at a Quebec City dairy.

Real Estate

Marathon Realty Company Limited

in millions	1986	1985	1984
Revenues	$332.9	$279.6	$277.6
Net income after minority interests	28.9	20.1	19.1

The past year was another period of improved performance for Marathon Realty. Compared with 1985 and 1984, however, most of the increase in income from Marathon arose from CP Limited's ownership increasing to 100% following its merger with Enterprises late in 1985. Income from Marathon for 1986 is after deduction of $1.2 million, representing the amortization of the write-up of Marathon's assets resulting from the CP Limited/Enterprises merger.

Growth of $53.3 million in Marathon's 1986 revenues compared with 1985 was due largely to higher rentals from office buildings and shopping centres, and to increased land sales. For the most part increased rentals reflected several acquisitions as well as newly developed properties, such as the Herring shopping centres in the United States and an office building in Montreal, which became operational in 1986. Revenues in 1985 increased $2.0 million over 1984. Higher rentals from buildings, owing largely to the full-year effect of new properties which came on stream, were largely offset by reduced proceeds from property sales in 1985.

Total expenses amounted to $303.4 million in 1986, up over $250.8 million in 1985 and $249.8 million in 1984. The increase in expenses, particularly in 1986, stemmed from operating costs and interest charges associated with the additional buildings in the portfolio.

Marathon continues its program of selective expansion and rationalization. During 1986, interests in three office buildings in Vancouver and a five-building complex in Mississauga, Ontario, were purchased, varying interests in shopping centres were acquired in Western Canada, Arkansas and Texas, and land for future development was purchased in Ontario, Tennessee and Georgia. Current construction projects to be completed in future years comprise office buildings in San Francisco and Toronto and shopping malls in Oklahoma and Arkansas. Divestitures during the past year included

Edifice La Laurentienne in Montreal (above), a Marathon Realty joint venture, opened in 1986. Computer-controlled mechanical room (right) at 40 University Avenue in Toronto typifies sophisticated energy management systems in modern office buildings.

several smaller shopping plazas and office buildings as well as a number of industrial properties. In its drive to become more competitive, Marathon also initiated a management re-alignment from a geographic to a business line orientation.

The outlook for Marathon is for modest growth in earnings. Although no new developments are expected to become operational in 1987, a full year's income will be derived from the expansion activity of 1986.

Other Businesses

Canadian Pacific Hotels Corporation

in millions	1986	1985	1984
Revenues	$311.3	$298.5	$265.8
Net income	14.3	17.7	10.9

CP Hotels, formerly a division of Canadian Pacific Air Lines, Limited, was not part of the transaction to sell the airline early in 1987 and, consequently, it became a wholly-owned subsidiary of CP Limited.

Although net income from CP Hotels in 1986 decreased $3.4 million from 1985, this was essentially because of lower non-recurring income. In 1986 there were net gains totalling $2.5 million on the disposal of properties, while results for 1985 included $5.7 million representing the net after tax compensation for terminating a management contract; there was no such income in 1984.

At the operating level, earnings in 1986 were not much different in total from 1985, but there were wide swings in the sectors. On the one hand, it was a better year for occupancy levels and room rates at the Canadian hotels, especially those in the West where Expo 86 provided a surge in business. However, the company's hotels outside Canada, particularly West Germany, suffered from the effects of depressed tourism created by the Chernobyl disaster, the threat of terrorism and the higher value of the Deutsche Mark. In comparing 1985 with 1984, occupancy levels and room rates in both domestic and foreign operations showed improvement.

Significant progress is being made in developing CP Hotels' primary strategy – to become a leader in its segment of the industry catering to travellers who demand high-quality hotels. During 1986 the company assumed management of the Lake Okanagan Resort near Kelowna, British Columbia, and purchased the Prince Edward Hotel and convention centre in Charlottetown, Prince Edward Island. The Lodge at Kananaskis currently under construction near the 1988 Winter Olympics Alpine site in the Canadian Rockies is scheduled to open in mid-1987, at which time CP Hotels will begin managing the property. The company also accelerated its on-going program to renovate and upgrade many of its properties, and made divestments in areas not compatible with its strategic direction. During 1986 CP Hotels sold its five flight kitchens, the gain on which is included in CP Limited's extraordinary items, and also disposed of the Skylon Tower restaurant and the two owned Red Oak Inns in Ontario, and terminated management and lease agreements in respect of the third Red Oak Inn in Ontario and a hotel in Trois-Rivières, Quebec.

CP Hotels looks forward to another satisfactory year in 1987. Consistent with its strategy, the company over the longer term will continue to seek opportunities to acquire existing hotels or develop new hotel sites in Canada, the United States, Europe and the Pacific Rim.

Maple Leaf Mills Limited

in millions	1986	1985	1984
Revenues	$828.5	$887.4	$979.6
Net income after minority interests	16.2	7.1	10.8

Net income from Maple Leaf in 1986 improved over 1985 when the company incurred a loss on the sale of its 50% interest in a vegetable oil business. Excluding this item, Maple Leaf's earnings increased moderately over the past three years.

In 1986 improved earnings reflected lower interest and administrative costs, net of increased income taxes, since divisional earnings in total were down. Income from the agricultural products segment fell, due largely to the absence of earnings from the vegetable oil business sold in 1985 and to reduced grain volume and margins. Partially offsetting improvement occurred in the flour and other food products segment, mainly because of higher volume and better selling prices for bakery products.

Maple Leaf's increased earnings in 1985 over 1984 arose chiefly from lower interest costs; earnings from the divisions were not much different in total.

Maple Leaf expects its earnings to continue on a modest upward trend.

Fording Coal Limited

in millions	1986	1985	1984
Revenues	$326.6	$270.2	$279.6
Net income after minority interests	16.1	7.4	6.4

Income from Fording Coal in 1986 was up over previous years, reflecting largely CP Limited's ownership of Fording increasing to 100%. Fording's earnings over the past three years have been relatively stable, despite continued excess capacity in coal markets. In addition, Fording's earnings for 1985 and 1984 included net gains of $4.1 million and $2.2 million, respectively, on the sale of coal leases and certain equipment.

Heavy haulage trucks at Fording Coal's mining operations in southeastern British Columbia are loaded by shovel (right) and transport both coal and waste material from pit site (above).

Fording's revenues increased $56.4 million in 1986 over 1985, as higher coal shipments more than compensated for the effects of reduced selling prices. Intense efforts to acquire new customers contributed to a large part of the volume increase, and reflected in record sales of 5.1 million tonnes from the Fording River Operations. The previous record was 4.0 million tonnes established in 1984. The revenue reduction of $9.4 million in 1985 from 1984 arose mainly from reduced selling prices.

Expenses of Fording amounted to $309.5 million in 1986, up from $253.1 million in 1985 and $264.2 million in 1984. The increase in 1986 reflects the higher coal volume, partially offset by the benefits of productivity improvements, while the decline in 1985 from 1984 was wholly due to productivity gains.

During 1986 Fording commenced operations under a five-year mining contract at TransAlta's Whitewood mine in Alberta. The development of the company's Eagle Mountain coal reserves continued at its Fording River Operations in southeastern British Columbia; by year end this development was 90% complete. Construction began on the Genesee Coal Mine near Edmonton, Alberta; the joint venture project with Edmonton Power is scheduled for start-up in 1989.

Over the next year, Fording will continue to focus on improving operating efficiency and expanding its customer base in an environment characterized by excess capacity and depressed prices.

CP Telecommunications

in millions	1986	1985	1984
Revenues	$171.9	$174.5	$169.0
Net income	8.1	9.0	8.1

Despite an increasingly competitive environment, earnings of CP Telecommunications have remained basically constant over the past three years.

The increase in income in 1985 compared with 1984 was chiefly the result of volume growth in data and voice services, which offset a lower contribution from message services, mainly Telex. This trend continued in 1986 primarily as a result of a decline in revenues from rental of equipment as more customers purchased their own terminals. Costs have been contained and did not rise in 1986.

To meet the rapidly growing demand for digital telecommunications services, CNCP is aggressively building a fibre optics network. In 1986 service began between Montreal, Ottawa and Toronto, and by the end of 1987 this service will be extended from Toronto to London and to the Windsor/Detroit area. In the West, the fibre link was completed from Kamloops, British Columbia, to Vancouver for service early in 1987, with the section east from Kamloops to Edmonton to be completed in 1987 and 1988.

Late in 1986 the Canadian Radio-television and Telecommunications Commission rejected CNCP's application for a review of the decision disallowing CNCP entry into the public long distance telephone market. CNCP is now considering its next steps which include either an appeal to Cabinet or the filing of a new application with the regulatory authority.

Syracuse China Corporation

in millions	1986	1985	1984
Revenues	$61.9	$63.7	$48.0
Net income after minority interests	7.3	4.4	3.4

Most of the improvement in net income from Syracuse China in 1986 was attributable to CP Limited's ownership increasing to 100% following the merger with Enterprises. Earnings of Syracuse China were better in 1986, as improved selling prices and a favourable product mix offset the effects of reduced volume of chinaware.

In 1985 earnings exceeded those of 1984, due chiefly to the inclusion for the full year of results of a chinaware company acquired late in 1984.

Processed Minerals Incorporated

Income from Processed Minerals amounted to $5.1 million in 1986, up from $3.4 million in 1985 and $3.0 million in 1984. Most of the increase in 1986 was due to CP Limited's ownership rising to 100% following the merger with Enterprises. Processed Minerals showed improved results in 1986, due mainly to its Carey Salt division, reflecting productivity improvements and higher volume of salt products used for water softener and human consumption. Increased competition caused a reduction in sales of wollastonite, which is produced by the NYCO division. Earnings in 1985 were up over 1984, reflecting higher prices and an improved mix of wollastonite products, partially offset by volume reductions for wollastonite, evaporated salt products and cattle feed.

At year-end 1986 Processed Minerals purchased a company engaged in the production of tripoli in Missouri and Oklahoma. Tripoli is a finely ground form of silica used largely in abrasive soaps and cleaners, and in buffing and polishing compounds.

High-rise forklift (above) handles cartons in Syracuse China's finished goods warehouse in Syracuse, New York. Cups and bowls on spindles (right) are spray glazed in hollow ware glazing machine.

Steep Rock Resources Inc.

Steep Rock incurred a loss in 1986, of which CP Limited's share amounted to $150,000. This compares with profits of $319,000 in 1985 and $214,000 in 1984. Steep Rock's loss for 1986 was attributable to a write-off of the net deferred development expenditures relating to the company's Lake St. Joseph iron ore property in northwestern Ontario. The economic and market outlook for the North American iron ore industry is such that this deposit is unlikely to be developed in the foreseeable future.

Financial and Miscellaneous

Canadian Pacific Securities Limited

Income from Canadian Pacific Securities amounted to $1.3 million in 1986. This was slightly better than $1.1 million in 1985 and $1.2 million in 1984.

Corporate Activities

The loss from Corporate Activities amounted to $7.1 million in 1986, which represented a substantial reduction from losses of $28.9 million in 1985 and $27.1 million in 1984.

The improvement in 1986 over 1985 was largely attributable to favourable currency exchange fluctuations, and lower interest and administrative expenses. Savings in administrative costs flowed principally from the streamlining occasioned by the merger of CP Limited and Enterprises in December 1985.

The loss in 1985 exceeded that of 1984, due largely to lower interest income and a gain in 1984 on dissolution of two foreign subsidiaries.

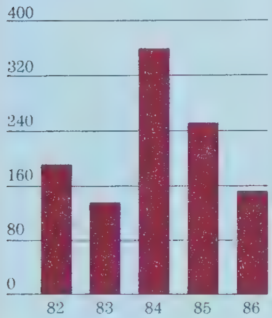
Others

Results of Arion Insurance Company Limited were at the break-even level in 1986 and 1985, compared with a loss of $10.8 million in 1984 when there was a significant provision for claims.

Canadian Pacific Consulting Services Ltd. earned $262,000 in 1986, compared with a loss of $14,000 in 1985 and net income of $610,000 in 1984. The resumption of earnings in 1986 reflected mainly lower expenses compared with 1985. An additional factor in 1985 was a reduction in contract business. The company's outlook for 1987 is for increased profitability, due mainly to continued cost control measures and higher consulting fees.

While 1986 witnessed poor earnings and low returns, it was a period of progress and improvement on other fronts. A review of assets and operations was undertaken, extraordinary and unusual charges were incurred, and the process of rationalizing the asset base accelerated. Actions taken during the year had an immediate impact on the Company's overall financial condition: debt levels were reduced significantly, the debt/equity proportion improved, the cash position was strengthened, capital expenditures reached a plateau and are expected to decline in the near term. It was also a period of continued stability in the Company's non-consolidated earnings.

Consolidated Net Income - before extraordinary items ($ millions)



Consolidated Highlights

The changes that took place in the Company have led to a revised presentation of the consolidated income statement. Results of Discontinued Businesses, chiefly Cominco and Canadian Pacific Air Lines, are shown separately, and the Company's continuing businesses have been re-grouped into seven sectors.

Results for years prior to 1986 were restated to reflect PanCanadian's retroactive adoption in 1986 of a change in accounting policy as described in Note 2 to the financial statements of this Report.

Net income before extraordinary items amounted to $150.1 million in 1986, which was a decrease from $252.7 million in 1985 and $366.2 million in 1984. On a per Ordinary share basis, earnings were $0.50 in 1986, compared with $1.14 in 1985 and $1.70 in 1984. Per share amounts are based on a weighted average number of Ordinary shares outstanding of 298.3 million in 1986. This was up from 220.8 million in 1985 and 215.0 million in 1984, due principally to the issuance of additional shares in exchange for common shares held by minority shareholders of Enterprises under the terms of the merger in December 1985.

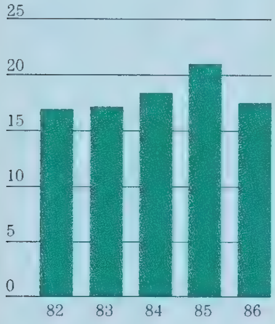
The drop in oil prices, which affected not only PanCanadian but also Algoma Steel, was a major reason for the decline in the Company's earnings in 1986. Results also reflected PanCanadian's unusual charge, of which $82.5 million was CP Limited's share, Soo Line's restructuring charge which amounted at CP's level to $63.3 million before tax, and AMCA's charge, of which CP's share was $15.1 million, due to a reduction in tax benefits. On the other hand, several businesses showed improvement, notably Bulk Shipping Operations, due mainly to recovery in tanker markets and reduced expenses, and Forest Products, which benefitted from stronger markets and greater cost efficiencies. The reduction in CP Limited's net income in 1985 from 1984 was attributable largely to Discontinued Businesses, chiefly Cominco and Canadian Pacific Air Lines, and Transportation, especially CP Rail and Soo Line, partially offset by improvement from Steel and Industrial Products.

Including extraordinary charges of $230.4 million, CP Limited incurred a net loss of $80.3 million, or $0.27 per Ordinary share, in 1986. Extraordinary charges consisted of $362.5 million representing the amount of the permanent impairment in the value of particular assets and the reduction to estimated realizable value of certain

operations due to their restructuring. Of the $362.5 million, $260.9 million related to the write-down of the Container and Bulk Shipping fleet, $96.0 million pertained to the assets and operations of Algoma Steel and AMCA, and $5.6 million was in respect of Arion Insurance Company. There were partially offsetting net gains of $102.6 million on the sale of the Company's interest in Cominco and $29.5 million from the divestment of CP Hotels' flight kitchens.

A further extraordinary net gain of $172.5 million will be included in the Company's results for the first quarter this year arising from the sale of Canadian Pacific Air Lines on January 30, 1987.

Total Assets
($ billions)

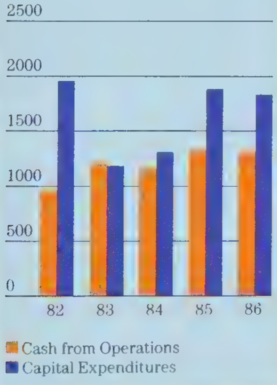


Asset Management, Liquidity and Capital Resources

Steps taken to reposition the Company began with the merger of CP Limited and Enterprises in December 1985. Following that, the Company purchased Cominco's 40% interest in Fording Coal for $87 million in February 1986, bringing its ownership of Fording to 100%. In March, Chateau Insurance Company was sold. An intensive review of the Company's assets and operations took place and the write-downs of $362.5 million occurred in June. In July, CP Hotels sold its flight kitchens for $43 million. In August, Canadian Pacific acquired Algoma's 34.5% interest in AMCA for $193 million, thereby raising its direct ownership of AMCA to 50.6%. In October, the Company sold its 52.5% interest in Cominco for $472 million, of which $397 million was cash and $75 million represented a promissory note redeemable not later than 1990. Other property dispositions during the year were made by AMCA, CP Hotels, Marathon Realty, Soo Line and Bulk Shipping. More recently, CP Limited made another important move with the sale of Canadian Pacific Air Lines in January 1987 for $300 million.

As a result of the rationalizations in 1986, the Company's consolidated assets declined to $17.7 billion by year-end from $21.3 billion at the end of 1985. The year-end 1985 assets were up over the previous year's level of $18.7 billion, due primarily to Soo Line's purchase of the Milwaukee Road early in 1985 and expansion of the asset base of CP Rail, PanCanadian and Marathon Realty.

Cash from Operations and Capital Expenditures
($ millions)

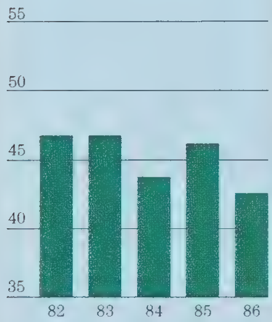


In line with the lower earnings in 1986, the Company's return on average capital employed amounted to 4.7%, compared with 5.9% in 1985 and 7.7% in 1984. Similarly, the return on average shareholders' equity declined to 2.5% in 1986 from 4.8% in 1985 and 8.3% in 1984.

Improvement occurred, however, in the Company's overall financial performance. After deteriorating in 1985, the cash position strengthened in 1986, as cash generated from operations and from asset sales was more than sufficient to finance capital expenditures. Although new borrowings were incurred, these were exceeded by repayments of debt. As a result of these changes, the ratio of cash flow to total debt increased to 24.6% in 1986 from 18.2% in 1985 and 23.6% in 1984; and the proportions of debt and equity to total capitalization improved to 43:57 by year-end 1986 from 46:54 a year earlier and 44:56 at the end of 1984. The decreased earnings in 1986 led to a reduction in the interest coverage ratio to 1.5 times from 1.9 times in 1985 and 2.4 times in 1984.

Aside from the effects of excluding the debt of Cominco and Canadian Pacific Air Lines from the consolidated balance sheet, there was a net debt reduction of $375 million in 1986. CIP's net debt declined $202 million, through the use of funds provided mainly by issuing additional equity to CP Limited. Algoma Steel's net debt decreased $144 million, as it used most of the proceeds of $193 million from the sale to CP Limited of its AMCA interest and of $28 million from issuing 2 million common shares with associated share purchase tax credits in December 1986; CP Limited did not participate in this share offering, and consequently its ownership of Algoma was reduced to 53.8%. CP (Bermuda) virtually eliminated its term debt by means of Eurodollar financing at more favourable rates; the Eurodollar notes are reflected in current liabilities on the balance sheet. Internally generated cash enabled PanCanadian to redeem $65 million of debentures. AMCA lowered its debt and redeemed some preferred shares with the proceeds in 1986 from its restructuring program. Other businesses which incurred a net reduction in debt were CP Securities and Great Lakes.

Debt to Total Capitalization
(%)



Net debt increases during the past year were attributable largely to the parent company and Marathon Realty. CP Limited's net debt increased $163 million because of two debenture issues during the year, and Marathon's net debt rose $179 million, due to its acquisition and development program.

Capital Expenditures and Commitments

Consolidated capital expenditures amounted to $1.8 billion in 1986, compared with $1.9 billion in 1985 and $1.3 billion in 1984. In 1986, expenditures by CP Rail were for its on-going renewal and improvements to plant and equipment, and for the four-year program of capacity expansion through its Rogers Pass double tracking and grade reduction project to be completed in 1988. PanCanadian continued its exploratory and drilling program, although at a significantly reduced level because of the oil price decline. CIP made improvements and replacements in several areas. Major projects at Algoma included construction of the No. 2 tube mill and modernization of rail mill facilities. Marathon Realty completed an active year, acquiring and developing shopping centres and office buildings. Consolidated capital expenditures in 1987 will be reduced considerably from 1986 levels, primarily because of the sale of Cominco and Canadian Pacific Air Lines, both of which accounted for $288 million of the 1986 outlays.

Commitments for capital expenditures totalled only $239 million at the end of 1986. They cover principally amounts for Marathon's current construction projects, CIP's equipment replacement and upgrading, and CP Rail's replacement program. These projects are being financed from internal funds or available lines of credit.

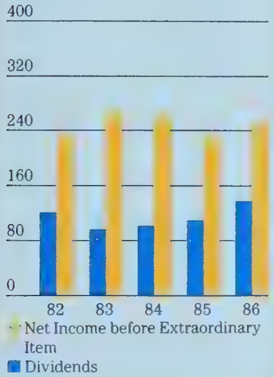
As at year-end 1986, unused commitments for long term financing amounted to $1,754 million, and unused lines of credit for short term financing amounted to $1,118 million.

Non-Consolidated Financial Review

At the non-consolidated level, CP Limited's net income, which consists largely of earnings from CP Rail and CP Telecommunications and dividends from subsidiaries, amounted to $252.9 million before an extraordinary item in 1986. In comparison, earnings were $233.6 million in 1985 and $263.2 million in 1984. The higher income in 1986 compared with 1985 was attributable mainly to the effects on dividend income of CP Limited's increased ownership of the subsidiaries of Enterprises following the merger with CP Limited; the subsidiaries' dividend rates in total were actually below 1985 levels. In 1985 income was less than in 1984, due principally to lower CP Rail earnings.

Per Ordinary share, earnings were $0.85 in 1986, $1.05 in 1985 and $1.22 in 1984. The decrease in 1986 reflected the higher number of shares outstanding following the merger with Enterprises late in 1985. On the increased number of shares outstanding, the Company paid dividends to its shareholders of $0.48 per share in 1986, which was the same as in 1985, but slightly higher than the $0.47 per share paid in 1984.

Non-Consolidated Net Income and Ordinary Share Dividends
($ millions)



The extraordinary charge in 1986 amounted to $250.9 million and represented the amount of the permanent impairment in the value of CP Limited's investment in CP (Bermuda), because of the reduced value of the fleet.

Total assets of the parent company were $7.1 billion at year-end 1986, compared with $6.9 billion and $4.9 billion at the end of the years 1985 and 1984, respectively. Most of the growth came in 1985 with the acquisition of the minority interest in Enterprises. The balance was due primarily to CP Rail's asset growth, partially offset in 1986 by the provision for impairment of the Company's investment in shipping.

Equity per Ordinary share was $11.98, $13.90 and $13.45 at the end of 1984, 1985 and 1986, respectively. The debt:equity proportions moved from 25:75 at year-end 1984 to 21:79 in 1985 and to 24:76 by the end of 1986. Interest coverage was 6.0 times in 1984, 4.5 times in 1985 and 4.2 times in 1986.

In 1986, additions to investments and properties totalling $844 million and payment of $143 million of dividends were largely funded by cash from operations of $466 million, issuance of long term debt of $213 million and proceeds from disposal of investments and properties amounting to $197 million. Although cash decreased by $132 million during 1986, cash was augmented early in 1987 with the proceeds of $300 million from the sale of Canadian Pacific Air Lines.

Of the additions to properties and investments during 1986, $476 million was attributable to CP Rail, $280 million was for the acquisition of the additional interests in AMCA and Fording Coal, and $75 million represented the promissory note related to the Cominco divestment.

Summary of Significant Accounting Policies

Basic Financial Reporting and Consolidation Policy

Canadian Pacific Limited (CP Limited) directly and through subsidiaries participates in transportation, the development of extensive natural resource properties, manufacturing and other activities in Canada and internationally.

Except for two finance companies which are accounted for on the equity basis, the consolidated financial statements include the financial statements of all subsidiary companies and have been prepared in accordance with accounting principles generally accepted in Canada. The major differences between Canadian and United States generally accepted accounting principles, insofar as they apply to the Corporation, are described under Supplementary Data. Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

The statement of consolidated income on page 33 is designed to present clearly CP Limited's income from its various classes of business. The classes of business are based upon the major activities of significant subsidiaries and departments.

The principal companies and departments included in each class are as follows:

	December 31		
	1986	1985	1984
Transportation	Percentage Ownership		
CP Rail[1]			
Soo Line Corporation	55.75%	55.75%	55.74%
CP Ships			
Canadian Pacific Steamships, Limited	100	100	100
Centennial Shipping Limited	100	100	100
Racine Terminal (Montreal) Limited	100	100	100
Canadian Pacific (Bermuda) Limited	100	100	100
CP Trucks			
Canadian Pacific Express & Transport Ltd.	100	100	100
CanPac International Freight Services Inc.	100	100	100
Oil and Gas			
PanCanadian Petroleum Limited[5]	87.08	87.08	60.83
Forest Products			
CIP Inc.[5]	100	100	69.86
Great Lakes Forest Products Limited[5]	54.28	54.28	37.92
Réserve de la Petite Nation Inc.[5][6]	100	100	69.86
Steel and Industrial Products			
The Algoma Steel Corporation, Limited[2][5]	53.82	61.18	42.73
AMCA International Limited			
CP Limited[5]	50.61	16.15	11.28
The Algoma Steel Corporation, Limited[3]	—	34.46	34.47
Real Estate			
Marathon Realty Company Limited[5]	100	100	69.86
Other Businesses			
Canadian Pacific Hotels Corporation	100	100	100
Maple Leaf Mills Limited[5]	100	100	69.86
Fording Coal Limited			
CP Limited[5]	100	60	41.92
Cominco Ltd.[4]	—	40	40
CP Telecommunications[1]			
Syracuse China Corporation[5]	100	100	69.86
Processed Minerals Incorporated[5]	100	100	69.86
Steep Rock Resources Inc.[5]	79.61	79.61	55.62
Financial and Miscellaneous			
Canadian Pacific Securities Limited[5]	100	100	69.86
Canadian Pacific Limited Corporate Activities			

(1) CP Rail and CP Telecommunications are departments of CP Limited.
(2) As described more fully in Note 6 to the financial statements, CP Limited's ownership interest changed to 53.82% effective December 29, 1986.
(3) On August 11, 1986 CP Limited purchased the 34.46% holding in AMCA International Limited held by The Algoma Steel Corporation, Limited (see Note 7 to the financial statements).
(4) On February 28, 1986 CP Limited purchased the 40% holding in Fording Coal Limited held by Cominco Ltd. (see Note 7 to the financial statements). CP Limited's investment in Cominco Ltd. was sold on October 16, 1986 (see Notes 3 and 7 to the financial statements).
(5) Ownership percentages for 1984 reflect CP Limited's indirect holding in these entities through Canadian Pacific Enterprises Limited (Enterprises) of whose common shares CP Limited held 69.86% at December 31, 1984. Effective December 6, 1985 Enterprises and CP Limited were merged (see Note 5 to the financial statements).
(6) Formerly Commandant Properties, Limited.

The Algoma Steel Corporation, Limited supplies structural steel and plate to AMCA International Limited. In reporting the results of Steel and Industrial Products in the statement of consolidated income on page 33, the following amounts have been eliminated from revenues and expenses: 1986 – $30,777,000; 1985 – $36,550,000; 1984 – $41,965,000.

In order to present fairly the results for each class of business, charges between entities engaged in different business activities, which are made at normal tariff or other arm's length rates, are not eliminated. Consolidated net income is not affected by this practice. Services provided by CP Rail to non-rail companies and departments yielded revenues in 1986 of $284,000,000 (1985 – $285,000,000; 1984 – $292,000,000). Inter-company interest charges amounted to $108,164,000 in 1986 (1985 – $105,408,000; 1984 – $121,672,000). There are no other significant charges between entities engaged in different business activities.

CP Limited's rent for leased railways is assigned to CP Rail. Other interest paid by CP Limited is allocated to CP Rail, CP Telecommunications and Corporate activities as appropriate. CP Limited's income taxes are allocated to CP Rail, CP Telecommunications and Corporate activities on the basis of their accounting incomes as adjusted for non-taxable items.

The significant accounting policies for the CP Limited companies and departments are described below, and should be read in conjunction with the consolidated financial statements and notes thereto.

Foreign Currency Translation

Foreign currency assets and liabilities of CP Limited's Canadian operations are translated into Canadian dollars at the year-end exchange rate, while foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions. With the exception of unrealized gains and losses on long term monetary assets and liabilities, which are being amortized to income over the remaining lives of the related items, foreign currency gains and losses are included in income immediately.

The accounts of CP Limited's foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average rates in effect for the year for revenues and expenses. Exchange gains or losses arising from translation are deferred and included under Shareholders' Equity as Foreign Currency Translation Adjustments. Also included as a foreign currency translation adjustment is the exchange credit arising from translation of the Corporation's Perpetual 4% Consolidated Debenture Stock.

Pensions

In addition to current service costs, charges to income include annual payments on account of past service liabilities. Such liabilities are being funded over varying periods to 2027.

Inventories

Rail materials and supplies, which consist primarily of fuel oil, repair or replacement materials for road and equipment property, are valued at average cost.

Finished products of Steel and Industrial Products and work in progress related to steel making operations are valued at the lower of cost and net realizable value. Work in progress related to construction contracts is stated at accumulated production costs less amounts charged to income based on the percentage of completion of individual contracts. Raw materials and supplies are valued at the lower of cost and replacement cost.

Other inventories (principally related to Forest Products) are valued at the lower of cost (generally average cost) and net realizable value.

Accounting for Transportation Properties

Maintenance and repairs are charged to expenses as incurred. Major additions and replacements generally are capitalized with the exception of the following CP Rail expenditures which are charged to expenses: labour costs relating to track structure replacements; renewals of parts of units of railway property which do not constitute "major renewals" as defined by the Uniform Classification of Accounts for railways subject to regulation by the Canadian Transport Commission.

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway properties, the rates used by CP Rail are as authorized by the Canadian Transport Commission and by the Interstate Commerce Commission for the Soo Line Railroad Company. When railway depreciable property is retired or otherwise disposed of, the book value, less net salvage, is charged to accumulated depreciation.

Estimated service lives used for principal categories of transportation properties are as follows:

	Years
Railway	
– road diesel locomotives	20
– freight cars	30
– ties	28
– rails – in first position	21
– in other than first position	45
Ships	18 to 20
Trucks	7 to 12

Accounting for Oil and Gas Properties

Full Cost Method of Accounting

PanCanadian Petroleum Limited (PanCanadian) adopted the Canadian Institute of Chartered Accountants Accounting Guideline issued during 1986 for applying the full cost method of accounting on a retroactive basis. The guideline provides that all costs relating to the exploration for and the development of conventional oil and natural gas reserves be capitalized on a country-by-country cost centre basis. Costs accumulated within each cost centre are depleted and depreciated using the unit of production method, based on estimated proven reserves, with net production and reserve volumes of natural gas and natural gas liquids converted to equivalent energy units of crude oil. Prior to 1986, PanCanadian followed the full cost method applied on a worldwide cost centre basis and depreciation was determined employing the diminishing balance method.

In determining the depletion and depreciation provisions, PanCanadian includes any excess of the net book value of conventional oil and natural gas assets over the unescalated, undiscounted future net operating revenues from its proven oil and natural gas reserves for each cost centre (ceiling test). A second ceiling test calculation is conducted on an enterprise basis by including in the depletion and depreciation provisions any excess of the net book value of conventional oil and natural gas assets for all cost centres, over the total unescalated, undiscounted future net operating revenues from proven oil and natural gas reserves less future general and administrative expenses, financing costs, and income taxes. Prices utilized in the ceiling test calculations are the weighted average posted prices which PanCanadian receives for its crude oil production as at the balance sheet date.

The effect of this change in accounting on the accounts of CP Limited is described in Note 2 to the financial statements.

Depreciation of conventional oil and natural gas plant, production and other equipment is provided for on the unit of production basis. The Empress and Syncrude facilities and the methanol plant are depreciated on the straight-line basis.

Interest on funds borrowed to finance major projects is capitalized during the construction period.

Accounting for Steel and Industrial Properties

Property, plant and equipment are recorded at cost. Major renewals and betterments are capitalized; maintenance and repairs are expensed as incurred excepting expenditures for periodic relines of blast furnaces which are accrued for in advance on a unit of production basis.

Depreciation of manufacturing plant and equipment is provided on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives. Mining equipment and mine development costs are either depreciated on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives or are amortized on a unit of production basis over the estimated recoverable raw material reserves.

Expenses in exploring for raw materials, investigating and holding raw material properties and costs of research and start-up of new production facilities are charged to earnings as incurred.

Interest incurred on funds borrowed directly to finance the development of new raw material properties and the construction of new manufacturing facilities is capitalized during the period of construction and initial development.

Accounting for Real Estate Properties

Real estate is stated at cost, except for land held for sale which is stated at the lower of cost and net realizable value. Cost includes carrying costs, principally real estate taxes, interest, the applicable portion of salaries and expenses of development personnel and, for income properties, initial leasing costs.

All operating and carrying costs net of rental revenues are capitalized for income properties under construction until a satisfactory level of occupancy is obtained, subject to a reasonable maximum period of time. Income from land sales is recorded in proportion to cash received when all material conditions of the contract have been fulfilled while income from sales of income properties is recorded in proportion to proceeds realized.

The sinking fund method of providing depreciation is used for the majority of buildings. This method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually.

Accounting for Other Properties

Depreciation and amortization of other properties are charged to earnings, either on a straight-line or on a unit of production basis, over the estimated economic lives of the facilities involved.

Interest on debt incurred to finance major expansion programs under Forest Products and Other Businesses is capitalized during the construction period.

Earnings per Ordinary Share

Earnings per Ordinary Share are calculated after providing for dividends on the Corporation's Preference Shares using the weighted average number of Ordinary Shares outstanding during the year.

Auditors' Report

To the Shareholders of Canadian Pacific Limited:

We have examined the consolidated balance sheets of Canadian Pacific Limited as at December 31, 1986 and 1985 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1986 and 1985 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1986 in accordance with generally accepted accounting principles in Canada. After giving retroactive effect to the change in accounting for oil and gas properties and except for the change in accounting for investment tax credits, with both of which we concur and which are described in Note 2 to the financial statements, these accounting principles have been consistently applied.

Price Waterhouse.

Chartered Accountants,
Montreal, Quebec,
March 6, 1987.

Statement of Consolidated Income

For the Year ended December 31		**1986**	1985	1984
		(in thousands, except per share amounts)		
Transportation	Revenues	**$ 4,254,608**	$ 4,105,786	$ 3,703,020
	Expenses including income taxes	**4,182,307**	3,991,067	3,511,275
		72,301	114,719	191,745
	Minority interest	**(21,006)**	6,311	13,835
	Net income	**93,307**	108,408	177,910
Oil and Gas	Revenues	**717,001**	1,137,105	1,055,358
	Expenses including income taxes	**575,361**	831,625	767,655
		141,640	305,480	287,703
	Unusual item (Note 2)	**94,754**	—	—
		46,886	305,480	287,703
	Minority interests	**7,793**	110,965	115,641
	Net income	**39,093**	194,515	172,062
Forest Products	Revenues	**2,240,895**	2,161,925	2,199,331
	Expenses including income taxes	**2,195,370**	2,180,137	2,201,398
		45,525	(18,212)	(2,067)
	Minority interests	**16,395**	(1,396)	4,831
	Net income	**29,130**	(16,816)	(6,898)
Steel and Industrial Products	Revenues	**3,487,047**	3,288,739	3,017,627
	Expenses including income taxes	**3,574,747**	3,267,518	3,063,530
		(87,700)	21,221	(45,903)
	Minority interests	**(22,258)**	22,640	(18,586)
	Net income	**(65,442)**	(1,419)	(27,317)
Real Estate	Revenues	**332,892**	279,553	277,570
	Expenses including income taxes	**303,358**	250,801	249,794
		29,534	28,752	27,776
	Minority interests	**674**	8,624	8,659
	Net income	**28,860**	20,128	19,117
Other Businesses	Revenues	**1,753,639**	1,743,037	1,793,057
	Expenses including income taxes	**1,681,016**	1,673,640	1,729,640
		72,623	69,397	63,417
	Minority interests	**4,308**	19,069	19,565
	Net income	**68,315**	50,328	43,852
Financial and Miscellaneous	Revenues	**186,079**	195,528	217,567
	Expenses including income taxes	**191,636**	219,125	249,031
		(5,557)	(23,597)	(31,464)
	Minority interest	**—**	2,835	4,232
	Net income	**(5,557)**	(26,432)	(35,696)
Net income from continuing businesses		**187,706**	328,712	343,030
Net income from discontinued businesses		**(37,594)**	(76,056)	23,140
Net income before extraordinary items		**150,112**	252,656	366,170
Extraordinary items (Note 4)		**(230,390)**	—	—
Net Income		**$ (80,278)**	$ 252,656	$ 366,170
Earnings per Ordinary Share				
Before extraordinary items		**$ 0.50**	$ 1.14	$ 1.70
After extraordinary items		**$ (0.27)**	$ 1.14	$ 1.70

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Statement of Consolidated Retained Income

For the Year ended December 31	1986	1985	1984
		(in thousands)	
Balance, January 1			
As previously reported	**$ 3,738,643**	$ 3,602,974	$ 3,327,138
Restatement (Note 2)	**(100,730)**	(106,666)	(95,933)
As restated	**3,637,913**	3,496,308	3,231,205
Net income	**(80,278)**	252,656	366,170
Gain (loss) arising from the increase (decrease) in shareholders' equity of subsidiaries due to the issuance of common shares (Note 6)	**(10,100)**	1,744	613
	3,547,535	3,750,708	3,597,988
Dividends			
7¼% Preferred shares	**—**	181	834
4% Preference shares	**533**	527	519
Ordinary shares (per share: 1986 – 48¢; 1985 – 47.67¢; 1984 – 46.67¢)	**143,223**	112,087	100,327
Total dividends	**143,756**	112,795	101,680
Balance, December 31	**$ 3,403,779**	$ 3,637,913	$ 3,496,308

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Statement of Changes in Consolidated Financial Position

For the Year ended December 31	1986	1985	1984
Operating Activities		(in thousands)	
Net income before extraordinary items	**$ 150,112**	$ 252,656	$ 366,170
Depreciation, depletion and amortization	**966,963**	978,162	873,184
Deferred income taxes	**114,936**	19,749	93,453
Minority shareholders' interest in income of subsidiaries	**(33,134)**	80,701	177,496
Unusual item	**94,754**	—	—
Other operating cash items, net	**133,504**	94,904	38,345
Cash from operations, before changes in working capital	**1,427,135**	1,426,172	1,548,648
Increase in non-cash working capital balances relating to operations (Note 8)	**(96,960)**	(83,179)	(384,780)
Cash from operations	**1,330,175**	1,342,993	1,163,868
Dividends			
Paid to shareholders of the corporation	**(143,050)**	(102,717)	(101,857)
Paid to minority shareholders of subsidiaries	**(83,259)**	(133,384)	(143,477)
	(226,309)	(236,101)	(245,334)
Financing Activities			
Issuance of long term debt	**737,311**	1,270,108	603,926
Repayment of long term debt	**(1,091,182)**	(789,152)	(852,116)
Issuance of shares by subsidiaries	**24,335**	129,046	228,697
Redemption of Preferred shares by subsidiaries	**(33,140)**	(102,810)	—
Preferred shares purchased for cancellation	**—**	(10,769)	(1,926)
Issuance of Ordinary shares by the corporation	**29,496**	1,469,500	—
	(333,180)	1,965,923	(21,419)
Investing Activities			
Acquisition of minority common shareholders' interest in Enterprises	**—**	(1,407,739)	—
Acquisition of subsidiaries and businesses	**(11,031)**	(304,711)	(23,039)
Additions to investments and properties	**(2,002,149)**	(1,927,010)	(1,416,713)
Sales of subsidiaries, investments and properties	**1,556,365**	244,224	240,557
	(456,815)	(3,395,236)	(1,199,195)
Cash Position*			
Increase (decrease) in cash	**313,871**	(322,421)	(302,080)
Cash at beginning of year	**(644,763)**	(322,342)	(20,262)
Cash at end of year	**$ (330,892)**	$ (644,763)	$ (322,342)

*Cash comprises cash and temporary investments net of bank loans and notes and accrued interest payable.

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet
December 31

Assets	1986	1985
	(in thousands)	
Current Assets		
Cash and temporary investments, at cost (approximates market)	**$ 173,401**	$ 327,086
Accounts receivable	**2,267,148**	2,463,788
Inventories (Note 11)	**1,268,769**	2,047,834
Net assets of discontinued business (Note 3)	**136,436**	—
	3,845,754	4,838,708
Insurance Fund (approximate market $4,112,000; 1985 – $4,330,000)	**4,000**	4,000
Investments (Note 12)	**421,642**	442,369
Properties, at cost (Note 13)		
Transportation	**8,075,931**	7,796,411
Oil and Gas	**3,338,459**	3,158,768
Forest Products	**2,705,058**	2,560,512
Steel and Industrial Products	**2,161,057**	2,239,117
Real Estate	**1,881,931**	1,670,111
Other Businesses	**1,463,739**	1,403,297
Financial and Miscellaneous	**45,848**	38,457
Discontinued Businesses	**—**	3,699,555
	19,672,023	22,566,228
Less: Accumulated depreciation, depletion and amortization	**6,858,754**	7,242,930
	12,813,269	15,323,298
Other Assets and Deferred Charges	**614,041**	723,107
	$ 17,698,706	$ 21,331,482

Liabilities	**1986**	1985
Current Liabilities	(in thousands)	
Bank loans	**$ 292,640**	$ 386,452
Accounts payable and accrued liabilities	**2,087,109**	2,810,360
Notes and accrued interest payable	**211,653**	585,397
Income and other taxes payable	**68,494**	85,471
Dividends payable	**40,868**	42,239
Long term debt maturing within one year (Note 14)	**613,747**	468,140
	3,314,511	4,378,059
Deferred Liabilities	**274,116**	246,480
Insurance Reserve	**4,000**	4,000
Long Term Debt (Note 14)	**4,500,987**	6,215,355
Perpetual 4% Consolidated Debenture Stock (Note 15)	**184,616**	184,981
Deferred Income Taxes	**1,946,202**	1,900,962
Deferred Income Credits (Note 16)	**347,627**	309,030
Minority Shareholders' Interest in Subsidiary Companies (Note 17)	**1,344,718**	2,031,662
Shareholders' Equity (Note 18)		
Preferred Shares		
Authorized – 20,381,788 Cumulative Redeemable Shares without nominal or par value		
Issued – Nil	**—**	—
Preference Shares – 4% Non-Cumulative		
Authorized – an amount not exceeding one-half the aggregate amount of Ordinary Shares outstanding		
Issued – 2,561,769 Sterling Preference Shares	**4,156**	4,156
– 10,713,816 Canadian Dollar Preference Shares	**10,714**	10,714
	14,870	14,870
Ordinary Shares		
Authorized – an unlimited number of shares without nominal or par value		
Issued – 299,545,111 (1985 – 297,705,933) shares	**790,013**	760,552
Premium on securities	**1,182,604**	1,182,569
Other paid-in surplus	**162,280**	162,272
Foreign currency translation adjustments	**228,383**	302,777
Retained income	**3,403,779**	3,637,913
	5,781,929	6,060,953
Contingencies (Note 23)		
	$ 17,698,706	$ 21,331,482

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

Robert W. Campbell
Director

W.W. Atkinson
Director

1. Net Income	1986	1985	1984
		(in thousands)	
CP Rail			
Revenues			
Freight	$ 2,402,776	$ 2,331,620	$ 2,382,495
Passenger	58,831	67,130	67,781
Other	92,968	88,861	82,771
Government payments	17,372	31,527	26,079
	2,571,947	2,519,138	2,559,126
Expenses including income taxes			
Maintenance	701,243	710,470	728,880
Transportation	868,592	858,552	832,793
General and administrative	487,748	473,901	484,380
Depreciation and amortization	137,731	126,627	117,317
Fixed charges	100,300	69,000	48,730
Income taxes	156,943	147,139	161,482
	2,452,557	2,385,689	2,373,582
Net income	$ 119,390	$ 133,449	$ 185,544
Soo Line Corporation			
Revenues	$ 889,747	$ 848,077	$ 430,352
Expenses including income taxes			
Maintenance	200,379	221,956	113,186
Traffic and other operating	510,681	507,141	221,660
Employee and equipment reduction charges	113,491	—	—
General and administrative	67,390	41,552	20,185
Depreciation and amortization	57,555	55,927	25,818
Interest	56,774	51,659	11,678
Income taxes	(56,489)	(14,566)	14,666
	949,781	863,669	407,193
	(60,034)	(15,592)	23,159
Minority interest	(26,565)	(6,899)	10,257
Net income	$ (33,469)	$ (8,693)	$ 12,902
CP Ships			
Revenues	$ 367,959	$ 352,882	$ 340,164
Expenses including income taxes			
Maintenance	18,086	20,155	22,579
Other operating	228,508	215,308	219,358
Selling, general and administrative	61,029	54,720	47,437
Depreciation and amortization	33,261	47,127	44,091
Interest	15,373	15,025	20,092
Income taxes	6,068	6,467	6,635
	362,325	358,802	360,192
	5,634	(5,920)	(20,028)
Minority interest	5,559	13,210	3,578
Net income	$ 75	$ (19,130)	$ (23,606)
CP Trucks			
Revenues	$ 424,955	$ 385,689	$ 373,378
Expenses including income taxes			
Maintenance	28,428	25,897	27,005
Other operating	301,638	280,157	264,685
Selling, general and administrative	58,152	54,760	58,879
Depreciation and amortization	16,554	15,260	14,103
Interest	5,818	5,343	4,055
Income taxes	7,054	1,490	1,581
	417,644	382,907	370,308
Net income	$ 7,311	$ 2,782	$ 3,070
Net Income – Transportation	$ 93,307	$ 108,408	$ 177,910

1. Net Income (cont'd)

	1986	1985	1984
		(in thousands)	
PanCanadian Petroleum Limited			
Revenues	**$ 717,001**	$ 1,137,105	$ 1,055,358
Expenses including income taxes			
Cost of goods sold	**219,107**	261,490	217,407
Selling, general and administrative	**45,815**	43,988	46,051
Depreciation, depletion and amortization	**157,153**	139,285	133,612
Interest	**22,408**	25,665	21,694
Petroleum and gas revenue taxes	**24,456**	96,327	96,280
Income taxes	**106,422**	264,870	252,611
	575,361	831,625	767,655
	141,640	305,480	287,703
Unusual item (Note 2)	**94,754**	—	—
	46,886	305,480	287,703
Minority interests	**7,793**	110,965	115,641
Net Income – Oil and Gas	**$ 39,093**	$ 194,515	$ 172,062
CIP Inc.			
Revenues	**$ 1,602,043**	$ 1,569,811	$ 1,594,621
Expenses including income taxes			
Cost of goods sold	**1,307,348**	1,328,840	1,349,693
Selling, general and administrative	**59,943**	64,975	71,363
Depreciation, depletion and amortization	**93,562**	95,504	81,379
Interest	**104,996**	116,442	134,792
Income taxes	**20,674**	(17,521)	(22,591)
	1,586,523	1,588,240	1,614,636
	15,520	(18,429)	(20,015)
Minority interests	**2,657**	(1,794)	(6,195)
Net income	**$ 12,863**	$ (16,635)	$ (13,820)
Great Lakes Forest Products Limited			
Revenues	**$ 637,646**	$ 591,231	$ 603,317
Expenses including income taxes			
Cost of goods sold	**493,541**	498,027	493,927
Selling, general and administrative	**15,894**	15,665	12,896
Depreciation, depletion and amortization	**46,123**	49,362	44,833
Interest	**23,757**	25,142	24,791
Income taxes	**28,282**	2,819	9,091
	607,597	591,015	585,538
	30,049	216	17,779
Minority interests	**13,738**	396	10,976
Net income	**$ 16,311**	$ (180)	$ 6,803
Others – Net income	**$ (44)**	$ (1)	$ 119
Net Income – Forest Products	**$ 29,130**	$ (16,816)	$ (6,898)
The Algoma Steel Corporation, Limited			
Revenues	**$ 1,093,577**	$ 1,178,431	$ 1,106,984
Expenses including income taxes			
Cost of goods sold	**1,022,683**	1,045,370	1,010,035
Selling, general and administrative	**25,807**	27,688	35,841
Depreciation, depletion and amortization	**66,344**	67,514	54,761
Interest	**52,617**	54,492	67,390
Income taxes	**(15,345)**	(17,078)	(21,590)
	1,152,106	1,177,986	1,146,437
	(58,529)	445	(39,453)
Minority interests	**(13,061)**	8,027	(13,055)
Net income	**$ (45,468)**	$ (7,582)	$ (26,398)

1. Net Income (cont'd)	1986	1985	1984
		(in thousands)	
AMCA International Limited			
Revenues	**$ 2,421,773**	$ 2,146,858	$ 1,952,608
Expenses including income taxes			
Cost of goods sold	**2,128,053**	1,675,724	1,548,111
Selling, general and administrative	**190,872**	339,068	317,020
Depreciation, depletion and amortization	**39,771**	52,184	46,960
Interest	**56,199**	65,591	71,687
Income taxes	**38,523**	(6,485)	(24,720)
	2,453,418	2,126,082	1,959,058
	(31,645)	20,776	(6,450)
Minority interests	**(11,671)**	14,613	(5,531)
Net income	**$ (19,974)**	$ 6,163	$ (919)
Net Income – Steel and Industrial Products	**$ (65,442)**	$ (1,419)	$ (27,317)
Marathon Realty Company Limited			
Revenues	**$ 332,892**	$ 279,553	$ 277,570
Expenses including income taxes			
Operating expenses and cost of sales	**170,585**	134,088	145,029
Depreciation and amortization	**22,454**	18,528	15,606
Interest	**91,030**	79,922	70,272
Income taxes	**19,289**	18,263	18,887
	303,358	250,801	249,794
	29,534	28,752	27,776
Minority interests	**674**	8,624	8,659
Net Income – Real Estate	**$ 28,860**	$ 20,128	$ 19,117
Other Businesses			
Canadian Pacific Hotels Corporation	**$ 14,313**	$ 17,714	$ 10,858
Maple Leaf Mills Limited	**16,158**	7,112	10,843
Fording Coal Limited	**16,087**	7,370	6,430
CP Telecommunications	**8,055**	9,015	8,074
Syracuse China Corporation	**7,326**	4,436	3,388
Processed Minerals Incorporated	**5,067**	3,400	3,022
Steep Rock Resources Inc.	**(150)**	319	214
Others	**1,459**	962	1,023
Net Income – Other Businesses	**$ 68,315**	$ 50,328	$ 43,852
Financial and Miscellaneous			
Canadian Pacific Securities Limited	**$ 1,334**	$ 1,119	$ 1,232
Corporate Activities	**(7,109)**	(28,865)	(27,110)
Others	**218**	1,314	(9,818)
Net Income – Financial and Miscellaneous	**$ (5,557)**	$ (26,432)	$ (35,696)
Discontinued Businesses			
Canadian Pacific Air Lines, Limited	**$ (4,185)**	$ (26,624)	$ 2,902
Cominco Ltd.	**(33,409)**	(49,352)	3,939
Chateau Insurance Company	**—**	(287)	(339)
Others	**—**	207	16,638
Net Income – Discontinued Businesses	**$ (37,594)**	$ (76,056)	$ 23,140

2. Change in Accounting Policies

Oil and Gas Properties

During 1986 PanCanadian adopted on a retroactive basis the rules contained in a guideline recently issued by the Canadian Institute of Chartered Accountants (CICA) for applying the full cost method of accounting in the oil and gas industry.

The change in accounting, which is described under Accounting for Oil and Gas Properties on page 30, had the effect of reducing consolidated net income for 1986 by $77,882,000 or 26¢ per Ordinary Share, increasing consolidated net income as previously reported for 1985 by $5,936,000 or 3¢ per Ordinary Share and reducing consolidated net income as previously reported for 1984 by $10,733,000 or 5¢ per Ordinary Share.

The primary effect of the change in accounting in 1986 was an unusual charge of $82,512,000 representing CP Limited's share of a $94,754,000 ceiling test write-down on PanCanadian's non-Canadian operations occasioned by the significant decline in world oil prices.

The cumulative effect of the change in accounting to December 31, 1985 was a decrease in Oil and Gas properties of $114,444,000, an increase in Deferred Income Taxes of $1,231,000, a decrease in Minority Shareholders' Interest in Subsidiary Companies of $14,945,000 and a decrease in consolidated Retained Income of $100,730,000.

As a result of the change in accounting, all financial data for the Corporation, including supplementary and historical data, have been restated to reflect the retroactive effects of the change.

Investment Tax Credits

Effective January 1, 1985, the Corporation and its subsidiaries adopted on a prospective basis the recommendations of the CICA on accounting for investment tax credits. Whereas previously investment tax credits were accounted for principally as a reduction of income tax expense, the new recommendations call for them to be amortized to income on the same basis as the assets to which they relate. This change had the effect of reducing consolidated net income for 1986 by approximately $25,000,000 or 8¢ per Ordinary Share (1985 – $28,000,000 or 13¢ per Ordinary Share).

3. Discontinued Businesses

Cominco Ltd.

On October 16, 1986 the Corporation disposed of its entire holding of 34,230,318 common shares (representing a 52.46% ownership interest) of Cominco Ltd. (Cominco). Proceeds from the sale were $472,109,290, of which $397,109,290 was received in cash and $75,000,000 in the form of a promissory note. The sale resulted in an extraordinary gain of $102,648,000 (see Note 4).

Consolidated results on a pro forma basis assuming the sale of Cominco had occurred on January 1, 1986 would have been as follows:

		(in thousands)
Revenues	$	13,956,337
Net income before extraordinary items		203,762
Earnings per Ordinary Share before extraordinary items	$	0.68

The pro forma data are based on the assumption that the net cash proceeds from the sale of Cominco are used to retire debt of the Corporation and of a subsidiary company.

Canadian Pacific Air Lines, Limited

On December 2, 1986 the Corporation agreed to sell all of the issued and outstanding common shares of Canadian Pacific Air Lines, Limited (CPAL) to Pacific Western Airlines Corporation (PWA) for $300,000,000. The sale was subject to the prior transfer of CP Hotels, a division of CPAL, to a wholly-owned subsidiary of the Corporation.

After providing for income taxes of $55,227,000, the sale, which was concluded on January 30, 1987, resulted in an extraordinary gain of $172,547,000. The gain will be included in the Corporation's 1987 results.

The sale was approved by the Canadian Transport Commission on February 26, 1987.

The Corporation's interest in the net assets of the Airline division of CPAL as at December 31, 1986, amounting to $136,436,000, is shown under net assets of discontinued business in the Consolidated Balance Sheet of the Corporation. The net asset balance is made up as follows:

		(in thousands)
Assets		
Current (includes cash of $30,025)	$	210,140
Properties		980,710
Other assets and deferred charges		40,050
		1,230,900
Liabilities		
Current (includes bank loans of $100,541)		485,367
Long term debt		501,457
Deferred income taxes		57,640
Minority interest		50,000
		1,094,464
Net assets	$	136,436

(See also Note 23).

4. Extraordinary Items

Extraordinary items consist of the following:

(in thousands)

	CP Ships	The Algoma Steel Corporation, Limited	AMCA International Limited	Financial and Miscellaneous	Total
Permanent impairment in the value of assets which remain in operation	$ 260,938	$ 75,200	$ —	$ —	$ 336,138
Write-down to estimated realizable value of certain operations which are to be liquidated or sold	—	99,200	69,500	5,560	174,260
	260,938	174,400	69,500	5,560	510,398
Income taxes	—	(59,400)	—	—	(59,400)
Minority interests	—	(44,815)	(43,660)	—	(88,475)
	$ 260,938	$ 70,185	$ 25,840	$ 5,560	362,523
Gain from sale of investment in Cominco Ltd., net of income taxes of $20,500,000 (see Note 3)					102,648
Gain from sale of CP Hotels' flight kitchens, net of income taxes of $10,439,000					29,485
					$ 230,390

5. Merger with Canadian Pacific Enterprises Limited

Effective December 6, 1985 the Corporation and Enterprises were merged. Under the merger, in which Enterprises became a wholly-owned subsidiary of the Corporation, the holders of Common Shares of Enterprises were issued 1.675 Ordinary Shares of the Corporation for each Common Share of Enterprises. This resulted in the issue in 1985 of 78,942,444 Ordinary Shares of the Corporation with a value of $1,401,228,000. A further 2,630 Ordinary Shares with a value of $46,000 were issued to dissenting shareholders of Enterprises during 1986 (see Note 18). Prior to the merger the Corporation owned approximately 70% of the Common Shares of Enterprises.

The merger has been accounted for as a purchase, and the Corporation's consolidated net income includes its additional interest in the results of Enterprises from the date of the merger. The excess of the acquisition cost over the book value of the Enterprises shares acquired (approximately $401,000,000) has been allocated to Oil and Gas and Real Estate assets and is being amortized to income on the same basis as the related assets are being depreciated and depleted.

6. Retained Income

On December 29, 1986, The Algoma Steel Corporation, Limited (Algoma) issued 2,000,000 common shares to the public. By not participating in the share issue the Corporation's ownership interest in Algoma changed from 60.99% to 53.82%. As a result of the transaction, the reported value of the Corporation's share of Algoma's net assets was adjusted to reflect its reduced ownership interest in Algoma. The adjustment resulted in a non-cash charge of $10,100,000 which, in accordance with the Corporation's policy for accounting for such transactions, is included in the Statement of Consolidated Retained Income.

7. Acquisitions

On February 28, 1986 the Corporation acquired 8,885,660 Common Shares (representing a 40% interest) of Fording Coal Limited (Fording Coal) from Cominco Ltd. (Cominco) for $87,000,000. As a result of the acquisition Fording Coal became a wholly-owned subsidiary of the Corporation and Cominco realized an extraordinary gain of $41,388,000. Prior to the acquisition the Corporation had a 60% direct holding in Fording Coal.

On August 11, 1986, the Corporation acquired 11,721,901 Common Shares of AMCA International Limited (AMCA) from The Algoma Steel Corporation, Limited (Algoma) for $193,411,366. As a result of the acquisition, the Corporation increased its direct holding in AMCA to 50.61% and Algoma realized an extraordinary gain of $57,620,000. Prior to the acquisition, the Corporation had a 16.15% direct holding in AMCA.

As the Cominco and Algoma extraordinary gains arose from sales between subsidiaries and their parent, they have been eliminated in the determination of consolidated net income.

The Corporation's consolidated net income includes its additional interests in the results of Fording Coal and AMCA from the dates of acquisition.

On February 19, 1985 Soo Line Corporation acquired the transportation operations and related assets of the Chicago, Milwaukee, St. Paul and Pacific Railroad Company at a purchase price of U.S. $658 million of which U.S. $186 million was paid in cash with the remainder representing obligations assumed and acquisition costs. The results of operations of the acquired business have been consolidated from the date of acquisition.

8. Changes in Non-Cash Working Capital Balances Relating to Operations

	1986	1985	1984
		(in thousands)	
Increase (decrease) in current assets			
Accounts receivable	$ **(196,640)**	$ 389,945	$ 388,671
Inventories	**(779,065)**	58,741	27,929
Net assets of discontinued business	**136,436**	—	—
(Increase) decrease in current liabilities			
Accounts payable and accrued liabilities	**723,251**	(457,200)	(238,502)
Income and other taxes payable	**16,977**	(37)	173,142
Increase (decrease) in non-cash working capital balances during year	**(99,041)**	(8,551)	351,240
Increase in non-cash working capital balances not relating to operations	**196,001**	91,730	33,540
Increase in non-cash working capital balances relating to operations	$ **96,960**	$ 83,179	$ 384,780

9. Interest Expense

	1986	1985	1984
		(in thousands)	
Long term debt and debenture stock	$ **697,404**	$ 678,771	$ 647,377
Short term debt	**94,481**	102,131	90,240
	791,885	780,902	737,617
Less: Interest capitalized on funds borrowed to finance capital projects	**54,493**	43,992	39,456
	$ **737,392**	$ 736,910	$ 698,161

10. Income and Revenue Taxes		1986		1985		1984
				(in thousands)		
Current	**$**	**217,842**	$	405,481	$	426,947
Deferred – Before extraordinary items		**114,936**		19,749		93,453
– Extraordinary items		**(28,461)**		—		—
		86,475		19,749		93,453
	$	**304,317**	$	425,230	$	520,400
The deferred income tax provision arose as follows:						
Capital cost allowances	**$**	**121,049**	$	(12,064)	$	64,487
Exploration and development allowances		**10,084**		34,594		44,599
Loss carry forwards recognized		**(75,808)**		(7,824)		(7,616)
Other		**31,150**		5,043		(8,017)
	$	**86,475**	$	19,749	$	93,453
Income tax at the statutory tax rate may be reconciled to the effective tax as follows:						
Income tax at the statutory rate	**$**	**27,262**	$	389,956	$	514,225
Depletion and resource allowances		**(47,711)**		(98,857)		(104,092)
Foreign tax differentials		**116,738**		(8,527)		(2,061)
Deferred tax differentials		**29,948**		16,345		7,300
Royalties and mineral reserve tax		**17,476**		37,814		30,414
Manufacturing and processing credits		**2,173**		1,797		2,044
Loss carry forwards not recognized		**129,541**		—		24,190
Investment tax credits		**—**		—		(44,814)
Other		**4,434**		(9,625)		(3,086)
Income taxes		**279,861**		328,903		424,120
Petroleum and gas revenue taxes		**24,456**		96,327		96,280
Income and revenue taxes as charged to income	**$**	**304,317**	$	425,230	$	520,400

11. Inventories

	1986	1985
	(in thousands)	
Rail materials and supplies	**$ 258,564**	$ 288,169
Raw materials	**407,938**	581,452
Work in progress	**128,335**	271,373
Finished goods	**280,091**	603,129
Stores and materials	**193,841**	303,711
	$ 1,268,769	$ 2,047,834

12. Investments

	1986	1985
	(in thousands)	
Accounted for on the equity basis:		
AMCA International Finance Corporation	**$ 27,544**	$ 77,770
AMCA International Finance Limited	**13,022**	13,022
Aberfoyle Limited	**—**	22,959
Tilden Iron Ore Partnership	**50,591**	49,858
Other	**81,240**	97,851
Accounted for on the cost basis:		
Panarctic Oils Ltd.	**—**	42,097
The Toronto Terminals Railway Company	**10,682**	10,682
Portfolio investments (approximate market value 1986 – $12,348,000; 1985 – $7,290,000)	**12,288**	7,789
Other	**226,275**	120,341
	$ 421,642	$ 442,369

13. Properties and Accumulated Depreciation, Depletion and Amortization

	1986			1985
	(in thousands)			
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Net
Transportation				
CP Rail	$ 5,326,593	$ 1,873,632	**$ 3,452,961**	$ 3,144,743
Soo Line Corporation	1,645,257	474,227	**1,171,030**	1,245,936
CP Ships	868,567	620,885	**247,682**	606,983
CP Trucks	235,514	93,158	**142,356**	136,752
	8,075,931	3,061,902	**5,014,029**	5,134,414
Oil and Gas				
PanCanadian Petroleum Limited	3,338,459	1,174,928	**2,163,531**	2,219,447
Forest Products				
CIP Inc.	1,672,907	457,541	**1,215,366**	1,173,570
Great Lakes Forest Products Limited	1,030,190	430,732	**599,458**	614,801
Others	1,961	461	**1,500**	1,434
	2,705,058	888,734	**1,816,324**	1,789,805
Steel and Industrial Products				
The Algoma Steel Corporation, Limited	1,762,227	841,878	**920,349**	999,186
AMCA International Limited	398,830	153,400	**245,430**	356,925
	2,161,057	995,278	**1,165,779**	1,356,111
Real Estate				
Marathon Realty Company Limited	1,881,931	113,342	**1,768,589**	1,574,165
Other Businesses				
Canadian Pacific Hotels Corporation	299,390	96,724	**202,666**	191,929
Maple Leaf Mills Limited	275,258	124,512	**150,746**	148,403
Fording Coal Limited	409,805	160,085	**249,720**	244,467
CP Telecommunications	363,185	182,580	**180,605**	175,231
Syracuse China Corporation	37,488	17,490	**19,998**	18,565
Processed Minerals Incorporated	57,981	23,096	**34,885**	38,409
Steep Rock Resources Inc.	20,632	4,910	**15,722**	13,147
	1,463,739	609,397	**854,342**	830,151
Financial and Miscellaneous				
Corporate Activities	25,064	3,794	**21,270**	15,655
Others	20,784	11,379	**9,405**	10,374
	45,848	15,173	**30,675**	26,029
Discontinued Businesses	—	—	**—**	2,393,176
	$ 19,672,023	$ 6,858,754	**$ 12,813,269**	$ 15,323,298

14. Long Term Debt

	1986	1985
	(in thousands)	
Canadian Pacific Limited		
8½% Collateral Trust Bonds due 1989	**$ 4,087**	$ 4,547
9¾% Collateral Trust Bonds due 1989	**56,925**	59,486
8⅞% Collateral Trust Bonds due 1992	**33,500**	36,403
14⅝% Collateral Trust Bonds due 1992	**103,500**	105,000
10.35% Collateral Trust Bonds due 1994	**47,610**	60,850
11¼% Collateral Trust Bonds due 1995	**43,800**	47,215
8½% – 14⅜% Equipment Trust Certificates due 1988-1993	**219,795**	233,710
6¾% – 12½% Debentures due 1990-1999	**540,500**	320,000
Obligations under capital leases due 1987-1990	**9,063**	20,245
Bank loans and sundry borrowings due 1987-1989	**18,683**	26,787
Soo Line Corporation		
7⅛% – 13⅝% Equipment Trust Certificates due 1987-1996	**71,740**	85,221
Notes due 1991-2005	**243,861**	239,095
Obligations under capital leases due 1987-1999	**68,491**	85,274
Bank loans and sundry borrowings due 1987-2029	**185,880**	132,060
Canadian Pacific Steamships, Limited		
Obligations under capital leases due 1986	**—**	327
Centennial Shipping Limited		
Bank loans due 1987-1990	**34,062**	35,176
Obligations under capital leases due 1987-1991	**23,004**	17,491
Canadian Pacific (Bermuda) Limited		
Mortgages due 1986	**—**	21,105
Bank loans due 1986	**—**	42,420
Obligation under capital lease due 1987-1991	**7,451**	—
Canadian Pacific Express & Transport Ltd.		
Bank loans due 1987-1989	**36,645**	38,513
Sundry – due 1987-1989	**288**	399
PanCanadian Petroleum Limited		
8⅛% – 12½% Debentures due 1992-1993	**87,500**	153,875
CIP Inc.		
Bank loans due 1987-1996	**196,613**	392,870
Sundry – due 1987-1997	**67,663**	73,295
Great Lakes Forest Products Limited		
Bank loans due 1987-1990	**148,675**	177,570
8% – 11¼% Sinking Fund Bonds due 1989-1995	**30,857**	33,120
Sundry – due 1987-1989	**3,311**	6,602
The Algoma Steel Corporation, Limited		
Bank loans due 1986-1993	**—**	14,682
7⅜% – 17⅜% Sinking Fund Debentures due 1987-1997	**293,749**	305,462
Floating Rate Debenture due 1990	**53,805**	181,779
Floating Rate Income Debentures due 1994-1999	**115,220**	115,932
9.65% Note due 1987-2000	**38,654**	41,949

14. Long Term Debt (cont'd)

	1986	1985
	(in thousands)	
AMCA International Limited		
Bank loans due 1987-1989	**$ 179,039**	$ 216,753
7⅜% – 12¼% Debentures due 1987-1999	**329,039**	330,477
Other notes payable due 1987-2004	**85,504**	92,663
Marathon Realty Company Limited		
Bank loans due 1987-1994	**272,784**	221,562
9% – 17½% Sinking Fund Bonds due 1987-2006	**304,660**	162,562
Mortgages due 1987-2018	**451,630**	447,502
Sundry – due 1987-1991	**89,351**	108,273
Canadian Pacific Hotels Corporation		
Bank loans due 1987-1988	**9,260**	3,360
8⅝% – 11⅜% First Mortgage Sinking Fund Bonds due 1987	**36,600**	38,312
Obligations under capital leases due 1986	**—**	266
Maple Leaf Mills Limited		
Bank loans due 1987-1991	**6,223**	5,071
8½% – 11⅝% Sinking Fund Debentures due 1987-1998	**39,794**	42,710
Sundry – due 1987-1988	**1,403**	3,247
Canadian Pacific Securities Limited		
8¼% – 9½% Debentures due 1990-1993	**51,275**	54,518
11⅞% – 17¾% Notes due 1987-1990	**269,900**	316,821
6⅜% – 7½% Guaranteed Notes due 1988	**166,500**	167,873
Other companies	**36,840**	23,461
Discontinued Businesses	**—**	1,339,604
	5,114,734	6,683,495
Less: Long term debt maturing within one year	**613,747**	468,140
	$ 4,500,987	$ 6,215,355

Collateral Trust Bonds of CP Limited are secured by a pledge of Perpetual 4% Consolidated Debenture Stock aggregating in the principal amount of $728,048,000 at December 31, 1986 (1985 – $786,032,500).

At December 31, 1986 foreign currency long term debt, denominated principally in United States dollars, amounted to $3,216,900,000 (1985 – $3,703,100,000).

Of the aggregate bank loans of $1,182,945,000 included above, approximately $998,099,000 bear interest at rates which fluctuate with bank prime or money market rates.

Annual maturities and sinking fund requirements for each of the five years following 1986 are:
1987 – $613,747,000; 1988 – $594,676,000;
1989 – $487,681,000; 1990 – $570,685,000;
1991 – $448,923,000.

15. Perpetual 4% Consolidated Debenture Stock

Currency of Issue	1986				1985
	(in thousands)				
	Sterling	United States Dollar	Canadian Dollar	Total	Total
Issued	£ 46,757	$ 458,750	$ 184,673	**$ 912,664**	$ 971,013
Less: Pledged as collateral	—	393,750	184,673	**728,048**	786,032
	£ 46,757	$ 65,000	$ —	**$ 184,616**	$ 184,981

16. Deferred Income Credits

Deferred Income Credits include approximately $161,100,000 (1985 – $138,700,000) from the Federal Government for the rehabilitation of certain western branch lines, approximately $51,700,000 (1985 – $48,200,000) from other bodies, mainly for relocation of railway lines and approximately $61,300,000 (1985 – $32,000,000) in investment tax credits. These amounts are being amortized to income on the same basis as the related fixed assets are being depreciated.

Deferred Income Credits also include approximately $72,000,000 (1985 – $83,000,000) covering payments received by PanCanadian Petroleum Limited for natural gas to be delivered at future dates. These payments are taken into income when the natural gas is delivered.

17. Minority Shareholders' Interest in Subsidiary Companies

	1986	1985
	(in thousands)	
Soo Line Corporation	**$ 160,681**	$ 191,549
Centennial Shipping Limited	**8,590**	13,777
PanCanadian Petroleum Limited	**162,195**	165,696
CIP Inc.	**40,873**	36,985
Great Lakes Forest Products Limited	**156,470**	146,305
The Algoma Steel Corporation, Limited		
8% Tax deferred preference shares, series A	**40,440**	43,483
Floating rate preference shares	**80,000**	80,000
$2.00 Cumulative redeemable convertible class B preference shares	**95,000**	95,000
Common share equity	**183,605**	229,043
AMCA International Limited		
8.84% Cumulative redeemable retractable preferred shares	**60,918**	73,875
9.5% Cumulative redeemable convertible preferred shares	**100,000**	100,000
9.25% Cumulative redeemable retractable preferred shares	**58,340**	75,000
Common share equity	**174,529**	244,161
Marathon Realty Company Limited	**2,349**	2,304
Maple Leaf Mills Limited	**17,892**	16,454
Steep Rock Resources Inc.	**2,836**	2,732
Discontinued Businesses	**—**	515,298
	$ 1,344,718	$ 2,031,662

18. Shareholders' Equity

On March 28, 1985, all of the Corporation's outstanding 7¼% Cumulative Redeemable Preferred Shares, Series A, were redeemed. An analysis of Preferred Share balances is as follows:

	1986		1985		1984	
	Number	Amount	Number	Amount	Number	Amount
			(in thousands)			
Balance, January 1	**—**	**$ —**	1,077	$ 10,771	1,271	$ 12,709
Purchased	**—**	**—**	1,077	10,771	194	1,938
Balance, December 31	**—**	**$ —**	—	$ —	1,077	$ 10,771
Total cost of shares purchased		**$ —**		$ 10,769		$ 1,926

During 1986, 1,836,548 Ordinary Shares (1985 – 3,776,649) were issued for cash under the Corporation's dividend reinvestment and share purchase plan.

As is described more fully in Note 5, the Corporation also issued 2,630 Ordinary Shares in 1986 and 78,942,444 Ordinary Shares in 1985 resulting from the merger with Enterprises. The value assigned to these shares was allocated in part to the Corporation's Ordinary Share capital account and in part to Premium on Securities. The amount allocated to the Corporation's Ordinary Share capital account was $11,000 in 1986 and $333,969,000 in 1985, while the amount allocated to Premium on Securities was $35,000 in 1986 and $1,067,259,000 in 1985.

In 1985, the authorized number of Ordinary Shares was increased from 100,000,000 to an unlimited number and a three-for-one split of the Ordinary and Preference Shares of the Corporation was approved. All per share earnings and dividends and all references to the Corporation's Ordinary and Preference Shares for years prior to 1985 have been restated to reflect the share split.

An analysis of Ordinary Share balances is as follows:

	1986		1985		1984	
	Number	Amount	Number	Amount	Number	Amount
			(in thousands)			
Balance, January 1	**297,706**	**$ 760,552**	214,987	$ 358,311	214,987	$ 358,311
Issued during year	**1,839**	**29,461**	82,719	402,241	—	—
Balance, December 31	**299,545**	**$ 790,013**	297,706	$ 760,552	214,987	$ 358,311

Under a stock option plan introduced during the year, options granted to certain key employees to purchase 291,276 Ordinary Shares were outstanding at December 31, 1986. The options are exercisable commencing on July 1, 1988 at a price of $16.813, and expire on June 30, 1996.

At December 31, 1986, Maple Leaf Mills (Eastern) Limited (a wholly-owned indirect subsidiary of the Corporation) held 33,000 Sterling and 825,375 Canadian Dollar Preference Shares in the Corporation at a total cost of $452,000.

An analysis of the Foreign Currency Translation Adjustments balance is as follows:

	1986	1985	1984
		(in thousands)	
Balance, January 1	**$ 302,777**	$ 259,319	$ 209,112
Effect of exchange rate changes	**(3,882)**	43,641	53,255
Change in investment in subsidiaries	**8,410**	(183)	(3,048)
Other (see Note)	**(78,922)**	—	—
Balance, December 31	**$ 228,383**	$ 302,777	$ 259,319

Note: The $78,922,000 represents the amount by which the foreign currency translation adjustment arising from the Corporation's investment in CP Ships decreased as a result of the decision to make a provision for permanent impairment in the value of CP Ships' assets. The decrease had the effect of reducing to $260,938,000 the CP Ships' provision which is included under Extraordinary Items in Note 4 to the financial statements.

19. Industry Segments

	1986	1985	1984
		(in thousands)	
Identifiable assets			
Transportation			
CP Rail	$ **4,138,597**	$ 3,787,173	$ 3,269,839
Soo Line Corporation	**1,478,937**	1,555,212	757,277
CP Ships	**353,118**	718,241	742,486
CP Trucks	**223,108**	203,721	193,430
	6,193,760	6,264,347	4,963,032
Oil and Gas			
PanCanadian Petroleum Limited	**2,395,575**	2,586,418	1,988,394
Forest Products			
CIP Inc.	**1,774,378**	1,732,595	1,765,476
Great Lakes Forest Products Limited	**800,818**	798,316	798,606
Others	**1,595**	1,489	1,360
	2,576,791	2,532,400	2,565,442
Steel and Industrial Products			
The Algoma Steel Corporation, Limited	**1,528,017**	1,675,327	1,524,608
AMCA International Limited	**1,490,240**	1,837,558	1,680,173
	3,018,257	3,512,885	3,204,781
Real Estate			
Marathon Realty Company Limited	**1,836,910**	1,652,855	1,275,264
Other Businesses			
Canadian Pacific Hotels Corporation	**323,411**	248,223	215,189
Maple Leaf Mills Limited	**349,545**	348,687	354,644
Fording Coal Limited	**318,053**	309,045	280,185
CP Telecommunications	**204,191**	198,643	190,537
Syracuse China Corporation	**49,611**	46,440	48,307
Processed Minerals Incorporated	**67,236**	59,998	50,952
Steep Rock Resources Inc.	**22,180**	20,680	19,560
	1,334,227	1,231,716	1,159,374
Financial and Miscellaneous			
Canadian Pacific Securities Limited	**702,087**	820,203	824,911
Others	**357,056**	323,877	399,995
	1,059,143	1,144,080	1,224,906
Discontinued Businesses	**136,436**	3,297,914	3,288,295
Eliminations	**(852,393)**	(891,133)	(998,765)
	$ **17,698,706**	$ 21,331,482	$ 18,670,723

19. Industry Segments (cont'd)

	1986	1985	1984
	(in thousands)		
Capital expenditures			
Transportation			
CP Rail	**$ 475,552**	$ 578,567	$ 429,570
Soo Line Corporation	**33,036**	30,699	38,310
CP Ships	**21,453**	20,720	30,778
CP Trucks	**23,475**	27,003	38,168
	553,516	656,989	536,826
Oil and Gas			
PanCanadian Petroleum Limited	**172,519**	423,133	272,062
Forest Products			
CIP Inc.	**131,475**	75,604	44,351
Great Lakes Forest Products Limited	**30,749**	45,108	47,223
Others	**140**	131	162
	162,364	120,843	91,736
Steel and Industrial Products			
The Algoma Steel Corporation, Limited	**130,626**	143,183	24,413
AMCA International Limited	**31,172**	59,085	36,496
	161,798	202,268	60,909
Real Estate			
Marathon Realty Company Limited	**317,104**	76,727	105,889
Other Businesses			
Canadian Pacific Hotels Corporation	**46,009**	20,521	12,345
Maple Leaf Mills Limited	**18,018**	16,396	13,276
Fording Coal Limited	**22,527**	36,890	29,406
CP Telecommunications	**31,154**	35,354	26,342
Syracuse China Corporation	**2,207**	2,419	1,227
Processed Minerals Incorporated	**4,103**	4,200	3,026
Steep Rock Resources Inc.	**3,689**	1,047	206
	127,707	116,827	85,828
Financial and Miscellaneous			
Corporate Activities	**4,911**	530	463
Others	**253**	599	751
	5,164	1,129	1,214
Discontinued Businesses	**287,672**	290,558	176,817
	$ 1,787,844	$ 1,888,474	$ 1,331,281

20. Geographic Segments

	1986	1985	1984
		(in thousands)	
Canada			
Revenues			
Domestic	$ 7,496,094	$ 7,915,444	$ 7,632,213
Export – U.S.	1,570,559	1,710,600	1,807,627
– Other	1,104,707	970,953	1,106,716
International transportation revenues	1,139,373	1,048,804	1,019,989
Inter-area transfers	99,122	249,489	258,698
	11,409,855	11,895,290	11,825,243
Inter-company revenues	(537,170)	(502,698)	(509,443)
Total revenues	10,872,685	11,392,592	11,315,800
Net income before income taxes and minority interest	613,942	777,438	993,643
Net income before extraordinary items	$ 291,986	$ 258,233	$ 365,579
Identifiable assets	$ 14,384,058	$ 16,780,068	$ 15,543,717
United States			
Revenues	$ 3,631,183	$ 3,146,485	$ 2,869,899
Inter-area transfers	135,410	250,554	222,481
Total revenues	3,766,593	3,397,039	3,092,380
Net income before income taxes and minority interest	(231,911)	(49,730)	10,555
Net income before extraordinary items	$ (166,807)	$ (2,124)	$ 15,254
Identifiable assets	$ 3,543,240	$ 4,268,272	$ 2,963,246
Other Countries			
Revenues	$ 247,372	$ 397,816	$ 367,930
Inter-area transfers	—	77,834	54,391
Total revenues	247,372	475,650	422,321
Net income before income taxes and minority interest	56,023	30,332	73,261
Net income before extraordinary items	$ 24,858	$ 15,677	$ 8,943
Identifiable assets	$ 230,027	$ 456,034	$ 420,039
International – Seagoing			
Revenues	$ 367,959	$ 352,882	$ 340,164
Net income before income taxes and minority interest	11,702	547	(13,393)
Net income before extraordinary items	$ 75	$ (19,130)	$ (23,606)
Identifiable assets	$ 393,774	$ 718,241	$ 742,486
Summary			
Revenues	$ 15,254,609	$ 15,618,163	$ 15,170,665
Inter-area transfers	(234,532)	(577,877)	(535,570)
Total revenues	15,020,077	15,040,286	14,635,095
Net income before extraordinary items	$ 150,112	$ 252,656	$ 366,170
Identifiable assets	$ 18,551,099	$ 22,222,615	$ 19,669,488
Eliminations	(852,393)	(891,133)	(998,765)
	$ 17,698,706	$ 21,331,482	$ 18,670,723

21. Pensions

At December 31, 1986, there were unfunded liabilities, determined by actuarial evaluations, of $362,100,000, which is being funded by series of equal annual payments to 2016, and $220,400,000, which is being funded by equal annual payments to 2027.

Pension expense, including current service costs and payments on account of unfunded liabilities, was $170,000,000 in 1986 (1985 – $200,000,000; 1984 – $230,000,000).

22. Commitments

At December 31, 1986, commitments for capital expenditures amounted to $239,000,000 and minimum payments under operating leases were estimated at $668,000,000 in the aggregate, with annual payments in each of the five years following 1986 of:

1987 – $106,000,000; 1988 – $92,000,000;
1989 – $73,000,000; 1990 – $56,000,000;
1991 – $47,000,000.

At December 31, 1986, unused commitments for long term financing amounted to $1,754,000,000 at interest rates varying with bank prime or money market rates, with commitment fees on $1,346,000,000 ranging from ⅛% to ¼%.

Unused lines of credit for short term financing, subject to periodic review, repayable on demand and at various maturities up to 365 days, amounted to $1,118,000,000 on which interest rates vary with bank prime or money market rates.

23. Contingencies

The Corporation is a defendant in two actions brought by certain minority shareholders of Ontario and Quebec Railway Company, the railway of which the Corporation operates under a perpetual lease, alleging misuse of assets, breaches and termination of the perpetual lease, and claiming entitlement to the proceeds from the sale of Ontario and Quebec Railway Company's surplus lands and, in the alternative, substantial damages. The trial of these actions was concluded in December 1977 and the plaintiffs' actions succeeded in part. The Corporation appealed and the plaintiffs cross-appealed. On December 21, 1981, the Ontario Court of Appeal pronounced judgment allowing the Corporation's appeals, dismissing the plaintiffs' cross-appeals and substantially reversing the partial success that the plaintiffs had achieved at trial. The resulting judgments will not have any adverse effect on the financial condition of the Corporation. On June 22, 1982, the plaintiffs obtained leave to appeal to the Supreme Court of Canada from the judgments of the Court of Appeal and the appeals were heard in April, 1985. The Court has reserved judgment.

The Corporation believes that the appeals will not result in a judgment that will have a materially adverse effect on the financial condition of the Corporation.

On September 4, 1981, a representative of the holders of the consolidated debenture stock of the Ontario and Quebec Railway Company, who had been granted status by the Court as an intervenant in the above-mentioned appeal proceedings, commenced an action in the Supreme Court of Ontario on their behalf and on behalf of the minority shareholders of the Ontario and Quebec Railway Company against the Corporation, the Mercantile-Safe Deposit & Trust Company, and the Ontario and Quebec Railway Company seeking declarations respecting the ownership of rolling stock of the Corporation, a series of accounting proceedings relating to the rolling stock, a declaration that the Corporation's perpetual lease of the Ontario and Quebec Railway is void and damages. Counsel for the Corporation are of the opinion that this action can be successfully defended.

At December 31, 1986, the Corporation was contingently liable under guarantees for Canadian Pacific Air Lines, Limited (CPAL) loans with accrued interest of U.S. $201,000,000 and for a preference share issue of CPAL of Cdn. $50,000,000. As a result of the sale of the Corporation's investment in CPAL (see Note 3), guarantees for loans with accrued interest of U.S. $20,000,000 were assumed by the purchaser. In addition, the purchaser undertook to obtain the Corporation's release from the remaining loan guarantees prior to December 30, 1987 and, until this is done, to indemnify the Corporation from all contingencies arising from these guarantees. Security for the indemnity is to be provided by the purchaser no later than March 31, 1987. With respect to the preference share issue, the purchaser has agreed to indemnify, without security, the Corporation from all contingencies arising from this guarantee until June 30, 1988 at the latest, at which time, if the holder of the shares does not exercise his right to retract, the purchaser will cause CPAL to redeem the shares and thereby release the Corporation from its guarantee.

24. Reclassification

Certain prior years' figures have been reclassified to conform with the presentation adopted for 1986.

25. Supplementary Data

The discussion of Canadian and United States Accounting Principles included in Supplementary Data is an integral part of these financial statements.

Supplementary Data

The following data are provided to comply with certain disclosure requirements of the Securities and Exchange Commission (SEC) of the United States and recommendations of the Canadian Institute of Chartered Accountants.

Canadian and United States Accounting Principles

The consolidated financial statements of CP Limited have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada, as promulgated by the Canadian Institute of Chartered Accountants. Over the years, a number of differences have developed between the accounting principles generally accepted in Canada and in the United States. For the information of the Corporation's United States shareholders, the major differences are described below and their effect on the Corporation's net income is summarized, their effect on the balance sheet not being significant.

The full cost methods of accounting for conventional oil and gas operations promulgated under Canadian and United States GAAP differ in the following respect. Ceiling test calculations are performed by comparing the net book value of conventional petroleum and natural gas properties with the future net revenues expected to be generated from proven developed reserves, discounted at ten percent for United States reporting purposes, and undiscounted for Canadian reporting. Any excess of net book value over future net revenues is recognized as additional depletion expense in both reporting jurisdictions.

The method of recording income from land sales and gains on sale of income properties in proportion to proceeds realized and the sinking fund method of providing depreciation followed by the Real Estate segment in accordance with Canadian GAAP are not acceptable methods under United States GAAP. If United States accounting principles had been followed, income from land sales and gains on sale of income properties would have been recorded in total in the years that the transactions occurred and the straight-line method of depreciation would have been used.

Canadian GAAP permits deferred income tax balances to be carried forward on the balance sheet of an acquired company after a change in control, while United States GAAP requires such balances to be eliminated. Accordingly, when CIP was acquired, its deferred income tax balances were carried forward and since CIP recorded a loss in 1983 and 1982, the tax benefit of the loss carry forward has been recognized to the extent permissible under Canadian GAAP, by reducing deferred income taxes.

CP Limited follows the Canadian practice of deferring and amortizing unrealized exchange gains and losses related to long term foreign currency assets and liabilities, whereas under United States GAAP such gains and losses are included in income immediately.

CP Rail, a department of CP Limited, expenses interest related to the construction of assets. Under United States GAAP such interest would be capitalized as part of the cost of the asset.

The amounts reported as extraordinary items under Canadian GAAP would be included in the computation of net income before extraordinary items under United States GAAP (see Note 4).

	1986	1985	1984	1983	1982
	(in thousands, except per share amounts)				
Net income before extraordinary items – Canadian GAAP	$ 150,112	$ 252,656	$ 366,170	$ 137,404	$ 187,718
Increased or (decreased) by:					
Oil and Gas	14,941	(22,176)	1,849	(1,250)	(10,226)
Real Estate	(6,251)	(5,174)	(6,365)	(6,104)	(3,742)
Deferred Income Taxes	12,329	20,695	6,505	(21,190)	(37,206)
Foreign Exchange	36,451	(27,966)	(31,655)	(10,144)	(40,102)
Interest during Construction	17,400	12,885	4,000	—	—
Extraordinary Items	(230,390)	—	—	—	—
Net income – United States GAAP	$ (5,408)	$ 230,920	$ 340,504	$ 98,716	$ 96,442
Earnings per Ordinary Share:					
Canadian GAAP					
– before extraordinary items	$ 0.50	$ 1.14	$ 1.70	$ 0.63	$ 0.87
– after extraordinary items	$ (0.27)	$ 1.14	$ 1.70	$ 0.63	$ 0.87
United States GAAP					
– Continuing businesses	$ 0.09	$ 1.37	$ 1.54	$ 0.59	$ 0.68
– Discontinued businesses	(0.11)	(0.33)	0.04	(0.14)	(0.24)
	$ (0.02)	$ 1.04	$ 1.58	$ 0.45	$ 0.44

Oil and Gas Reporting

The following information on oil and gas producing activities was prepared in accordance with Financial Accounting Standards Board Statement No. 69. PanCanadian Petroleum Limited, a subsidiary of CP Limited, has prepared its financial statements utilizing the full cost method of accounting applied on a country-by-country cost centre basis, in accordance with Canadian generally accepted accounting principles.

Oil and Gas Production, Exploration and Development (Unaudited)

Capitalized Costs	1986	1985
	(in thousands)	
Conventional petroleum and natural gas properties	$ 2,640,392	$ 2,478,076
Accumulated depletion and depreciation	1,029,783	830,222
	1,610,609	1,647,854
Other – net	296,765	302,002
	$ 1,907,374	$ 1,949,856

Costs Incurred in Conventional Oil and Gas Activities

Country	Purchase of Producing Properties	Property Acquisition	Exploration	Development
1986		(in thousands)		
Canada	$ —	$ 9,586	$ 53,543	$ 65,631
United States	—	4,881	9,954	7,882
Other	—	23	842	—
	$ —	$ 14,490	$ 64,339	$ 73,513
1985				
Canada	$ —	$ 23,200	$ 113,204	$ 135,841
United States	79,416	11,885	19,909	15,370
Other	—	8	6,244	—
	$ 79,416	$ 35,093	$ 139,357	$ 151,211
1984				
Canada	$ —	$ 24,995	$ 117,403	$ 79,048
United States	—	11,174	13,493	11,905
Other	—	7	2,117	—
	$ —	$ 36,176	$ 133,013	$ 90,953

Results of Operations for Producing Activities (Unaudited)

PanCanadian's conventional oil and gas activities may be summarized as follows:

	Canada	United States and Other	Total
1986		(in thousands)	
Gross operating revenue	$ 512,585	$ 28,310	$ 540,895
Operating expenses	105,225	6,065	111,290
Depletion and depreciation	86,401	32,179	118,580
	320,959	(9,934)	311,025
Income and revenue taxes	152,415	(590)	151,825
Income (loss) from operations	168,544	(9,344)	159,200
Unusual item	—	(94,754)	(94,754)
Income (loss)	$ 168,544	$ (104,098)	$ 64,446
1985			
Gross operating revenue	$ 852,247	$ 36,966	$ 889,213
Operating expenses	123,476	5,731	129,207
Depletion and depreciation	86,004	28,230	114,234
	642,767	3,005	645,772
Income and revenue taxes	341,330	(1,206)	340,124
Income from operations	$ 301,437	$ 4,211	$ 305,648
1984			
Gross operating revenue	$ 821,043	$ 26,618	$ 847,661
Operating expenses	92,111	3,836	95,947
Depletion and depreciation	77,731	33,776	111,507
	651,201	(10,994)	640,207
Income and revenue taxes	343,644	163	343,807
Income (loss) from operations	$ 307,557	$ (11,157)	$ 296,400

Oil and Gas Reserves (Unaudited)

PanCanadian's net proved reserves of conventional oil, natural gas and natural gas liquids as estimated by PanCanadian engineers are summarized below. "Net" reserves are the gross reserves underlying the properties in which PanCanadian has either a working interest, less all royalties and interests owned by others, or a royalty interest.

	Crude Oil (including natural gas liquids) (thousands of barrels)			Natural Gas (billion cubic feet)		
	Canada	United States	Total	Canada	United States	Total
Net proved reserves: December 31, 1983	103,376	1,080	104,456	2,717	19	2,736
Revisions of previous estimates	12,510	(268)	12,242	53	1	54
Extensions and discoveries	17,712	552	18,264	81	2	83
1984 Production	(15,579)	(380)	(15,959)	(120)	(4)	(124)
Net proved reserves: December 31, 1984	118,019	984	119,003	2,731	18	2,749
Revisions of previous estimates	4,078	98	4,176	17	3	20
Extensions and discoveries	14,828	584	15,412	82	4	86
Acquisitions of reserves in place	—	5,672	5,672	—	15	15
1985 Production	(16,237)	(622)	(16,859)	(123)	(4)	(127)
Net proved reserves: December 31, 1985	120,688	6,716	127,404	2,707	36	2,743
Revisions of previous estimates	(1,127)	(299)	(1,426)	(273)	1	(272)
Extensions and discoveries	6,698	693	7,391	33	—	33
1986 Production	(15,837)	(773)	(16,610)	(112)	(6)	(118)
Net proved reserves: December 31, 1986	110,422	6,337	116,759	2,355	31	2,386

Proved reserves are those reserves which geological and engineering data demonstrate with reasonable certainty to be recoverable in the future at commercial production rates under present depletion methods and current operating conditions, prices and costs. Essentially all of PanCanadian's proved crude oil reserves are considered to be developed and recoverable through existing wells with existing facilities. In the case of PanCanadian's proved natural gas and associated liquid reserves, sufficient wells exist in most instances to meet required initial withdrawal rates from the respective reservoirs. As a result, the natural gas and natural gas liquids are considered to be developed even though additional drilling will be required in certain cases to drain effectively the respective reservoirs in a desirable length of time.

Standardized Measure of Discounted Future Net Cash Flows (Unaudited)

The United States Financial Accounting Standards Board Statement No. 69 entitled "Disclosure About Oil and Gas Producing Activities" contains definitive rules for computing the discounted future net cash flows from proved conventional oil and gas reserves. The rules provide that the carrying value discounted at 10% of proved conventional oil and gas reserves be measured by applying year-end sales prices, or scheduled prices if contractual arrangements so provide, to the related reserve quantities less deductions for future costs which will be required to develop and produce those reserves, and estimated future income taxes. The change in carrying value of proved oil and gas reserves from year-end to year-end due to production and development expenditures, additions and revisions to proved oil and gas reserves, and price changes are to be reported in a separate table.

The Financial Accounting Standards Board acknowledges that the standardized measure of discounted net cash flows cannot be considered an estimate of fair market value. Likewise, it follows that the inclusion of this information should not be interpreted as indicating that PanCanadian believes that valid inferences as to PanCanadian's probable measure of fair market value or future economic position can be derived therefrom.

For the benefit of those investors interested in such information, PanCanadian has prepared the data below.

	Canada	United States	Total
1986		(in thousands)	
Future cash inflows	$ 6,595,507	$ 162,237	$ 6,757,744
Future production and development costs	1,950,304	57,285	2,007,589
Future income tax expenses	1,582,487	—	1,582,487
Future net cash flows	3,062,716	104,952	3,167,668
10% annual discount for estimated timing of cash flows	1,570,174	41,614	1,611,788
Standardized measure of discounted future net cash flows	$ 1,492,542	$ 63,338	$ 1,555,880
1985			
Future cash inflows	$ 10,180,328	$ 342,030	$ 10,522,358
Future production and development costs	2,187,534	59,791	2,247,325
Future income tax expenses	2,986,729	—	2,986,729
Future revenue tax expenses	174,612	—	174,612
Future net cash flows	4,831,453	282,239	5,113,692
10% annual discount for estimated timing of cash flows	2,411,999	156,173	2,568,172
Standardized measure of discounted future net cash flows	$ 2,419,454	$ 126,066	$ 2,545,520

The following are the principal sources of change in the standardized measure of discounted future net cash flows:

	1986	1985	1984
		(in thousands)	
Standardized measure of discounted future net cash flows at beginning of year	$ 2,545,520	$ 2,112,622	$ 1,874,924
Add:			
Additions to proved reserves net of capital and production costs	83,951	275,517	388,442
Acquisition of reserves in place	—	75,384	—
Expenditures that reduced estimated future development costs	22,705	20,816	7,403
Accretion of discount	392,228	394,089	354,649
Revisions of previous estimates	—	128,150	680,238
Net changes in income and revenue taxes	915,456	464,856	—
	1,414,340	1,358,812	1,430,732
Less:			
Net changes in prices and production costs	1,585,916	165,908	199,377
Sales of oil and gas produced, net of production costs and mineral taxes	430,605	760,006	751,993
Revisions of previous estimates	387,459	—	241,664
	2,403,980	925,914	1,193,034
Standardized measure of discounted future net cash flows at end of year	$ 1,555,880	$ 2,545,520	$ 2,112,622

Future net cash flows were computed using year-end prices, and year-end statutory tax rates (adjusted for permanent differences and for known scheduled future rate changes) that relate to existing proved oil and gas reserves.

Taxation of United States Shareholders

Under the terms of the Canadian Income Tax Act and the United States-Canada tax convention, taxable dividends paid to United States resident shareholders of CP Limited (other than tax exempt organizations) are subject to a Canadian withholding tax of 15%.

Generally, capital gains on the disposition by United States residents of securities issued by CP Limited are exempt from Canadian tax unless the securities were either held in the conduct of a Canadian business or held by a former long-term resident of Canada.

Quarterly Financial Information (Unaudited)
Statement of Consolidated Income

	1986			
For the three months ended	March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
Transportation				
Revenues	$ 1,039,911	$ 1,094,014	$ 980,923	$ 1,139,760
Expenses including income taxes	1,029,711	1,060,771	974,017	1,117,808
	10,200	33,243	6,906	21,952
Minority interest	359	2,775	(2,723)	(21,417)
Net income	9,841	30,468	9,629	43,369
Oil and Gas				
Revenues	237,527	156,557	137,110	185,807
Expenses including income taxes	184,146	121,057	120,356	149,802
	53,381	35,500	16,754	36,005
Unusual item	51,313	43,441	—	—
	2,068	(7,941)	16,754	36,005
Minority interest	770	(637)	2,521	5,139
Net income	1,298	(7,304)	14,233	30,866
Forest Products				
Revenues	517,572	603,894	564,834	554,595
Expenses including income taxes	527,343	593,147	551,475	523,405
	(9,771)	10,747	13,359	31,190
Minority interests	(322)	3,047	5,387	8,283
Net income	(9,449)	7,700	7,972	22,907
Steel and Industrial Products				
Revenues	793,944	813,396	1,029,142	850,565
Expenses including income taxes	809,897	803,690	1,057,699	903,461
	(15,953)	9,706	(28,557)	(52,896)
Minority interests	(4,208)	11,825	(8,922)	(20,953)
Net income	(11,745)	(2,119)	(19,635)	(31,943)
Real Estate				
Revenues	81,033	72,349	73,455	106,055
Expenses including income taxes	74,165	65,311	69,375	94,507
	6,868	7,038	4,080	11,548
Minority interest	114	131	191	238
Net income	6,754	6,907	3,889	11,310
Other Businesses				
Revenues	402,325	468,731	459,103	423,480
Expenses including income taxes	391,116	451,243	433,785	404,872
	11,209	17,488	25,318	18,608
Minority interests	1,708	808	887	905
Net income	9,501	16,680	24,431	17,703
Financial and Miscellaneous				
Revenues	45,354	48,327	47,463	44,935
Expenses including income taxes	44,882	46,450	50,673	49,631
	472	1,877	(3,210)	(4,696)
Minority interest	—	—	—	—
Net income	472	1,877	(3,210)	(4,696)
Discontinued Businesses	(43,211)	(10,506)	14,045	2,078
Net income before extraordinary items	(36,539)	43,703	51,354	91,594
Extraordinary items	—	(362,523)	29,894	102,239
Net Income	$ (36,539)	$ (318,820)	$ 81,248	$ 193,833
Earnings per Ordinary Share				
Before extraordinary items	$ (0.12)	$ 0.15	$ 0.17	$ 0.30
After extraordinary items	$ (0.12)	$ (1.07)	$ 0.27	$ 0.65

Results for the three months ending March 31 and June 30 have been restated to give retroactive effect to the change in accounting for Oil and Gas Properties (see Note 2 to the financial statements).

Quarterly Financial Information (Unaudited)

Statement of Consolidated Income

For the three months ended	1985 March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
Transportation				
Revenues	$ 944,077	$ 1,082,023	$ 999,013	$ 1,080,673
Expenses including income taxes	927,011	1,041,204	986,259	1,036,593
	17,066	40,819	12,754	44,080
Minority interest	3,628	1,308	1,009	366
Net income	13,438	39,511	11,745	43,714
Oil and Gas				
Revenues	303,872	275,248	246,545	311,440
Expenses including income taxes	213,656	203,837	185,172	228,960
	90,216	71,411	61,373	82,480
Minority interests	34,872	27,282	23,540	25,271
Net income	55,344	44,129	37,833	57,209
Forest Products				
Revenues	542,659	547,169	541,723	530,374
Expenses including income taxes	546,383	553,043	548,734	531,977
	(3,724)	(5,874)	(7,011)	(1,603)
Minority interests	763	(1,772)	(2,068)	1,681
Net income	(4,487)	(4,102)	(4,943)	(3,284)
Steel and Industrial Products				
Revenues	767,936	857,869	815,875	847,059
Expenses including income taxes	765,852	851,902	811,522	838,242
	2,084	5,967	4,353	8,817
Minority interests	3,547	6,342	5,316	7,435
Net income	(1,463)	(375)	(963)	1,382
Real Estate				
Revenues	68,190	68,154	68,771	74,438
Expenses including income taxes	61,368	63,721	61,134	64,578
	6,822	4,433	7,637	9,860
Minority interests	2,128	1,429	2,390	2,677
Net income	4,694	3,004	5,247	7,183
Other Businesses				
Revenues	426,753	479,327	404,416	432,541
Expenses including income taxes	408,282	468,012	381,861	415,485
	18,471	11,315	22,555	17,056
Minority interests	5,978	3,340	3,982	5,769
Net income	12,493	7,975	18,573	11,287
Financial and Miscellaneous				
Revenues	50,184	51,228	45,889	48,227
Expenses including income taxes	54,530	53,406	51,449	59,740
	(4,346)	(2,178)	(5,560)	(11,513)
Minority interest	647	893	1,321	(26)
Net income	(4,993)	(3,071)	(6,881)	(11,487)
Discontinued Businesses	(15,871)	(139)	(4,734)	(55,312)
Net income before extraordinary items	59,155	86,932	55,877	50,692
Extraordinary items	—	—	—	—
Net Income	$ 59,155	$ 86,932	$ 55,877	$ 50,692
Earnings per Ordinary Share				
Before extraordinary items	$ 0.27	$ 0.41	$ 0.26	$ 0.20
After extraordinary items	$ 0.27	$ 0.41	$ 0.26	$ 0.20

Results for each three month period presented have been restated to give retroactive effect to the change in accounting for Oil and Gas Properties (see Note 2 to the financial statements).

Quarterly Financial Information (Unaudited)
Net Income

For the three months ended	1986 March 31	June 30	September 30	December 31
	(in thousands)			
Transportation				
CP Rail	$ 18,820	$ 32,013	$ 5,517	$ 63,040
Soo Line Corporation	(1,131)	1,501	(5,002)	(28,837)
CP Ships	(7,959)	(4,623)	6,118	6,539
CP Trucks	111	1,577	2,996	2,627
	9,841	30,468	9,629	43,369
Oil and Gas				
PanCanadian Petroleum Limited	1,298	(7,304)	14,233	30,866
Forest Products				
CIP Inc.	(9,167)	4,659	3,159	14,212
Great Lakes Forest Products Limited	(255)	3,016	4,806	8,744
Others	(27)	25	7	(49)
	(9,449)	7,700	7,972	22,907
Steel and Industrial Products				
The Algoma Steel Corporation, Limited	(12,210)	(6,644)	(16,062)	(10,552)
AMCA International Limited	465	4,525	(3,573)	(21,391)
	(11,745)	(2,119)	(19,635)	(31,943)
Real Estate				
Marathon Realty Company Limited	6,754	6,907	3,889	11,310
Other Businesses				
Canadian Pacific Hotels Corporation	(197)	3,741	11,021	(252)
Maple Leaf Mills Limited	634	3,802	5,105	6,617
Fording Coal Limited	3,978	3,223	4,156	4,730
CP Telecommunications	2,180	2,100	1,677	2,098
Syracuse China Corporation	1,045	2,120	1,061	3,100
Processed Minerals Incorporated	1,359	1,192	976	1,540
Steep Rock Resources Inc.	106	170	63	(489)
Others	396	332	372	359
	9,501	16,680	24,431	17,703
Financial and Miscellaneous				
Canadian Pacific Securities Limited	520	191	468	155
Corporate Activities	(932)	1,651	(2,684)	(5,144)
Others	884	35	(994)	293
	472	1,877	(3,210)	(4,696)
Discontinued Businesses				
Canadian Pacific Air Lines, Limited	(27,171)	(2,886)	24,429	1,443
Cominco Ltd.	(16,040)	(7,620)	(10,384)	635
	(43,211)	(10,506)	14,045	2,078
Net income before extraordinary items	(36,539)	43,703	51,354	91,594
Extraordinary items	—	(362,523)	29,894	102,239
Net Income	$ (36,539)	$ (318,820)	$ 81,248	$ 193,833

Results for the three months ending March 31 and June 30 have been restated to give retroactive effect to the change in accounting for Oil and Gas Properties (see Note 2 to the financial statements).

Quarterly Financial Information (Unaudited)

Net Income

For the three months ended	1985 March 31	June 30	September 30	December 31
	(in thousands)			
Transportation				
CP Rail	$ 13,348	$ 45,800	$ 18,832	$ 55,469
Soo Line Corporation	1,451	(3,950)	(3,004)	(3,190)
CP Ships	(82)	(3,073)	(5,404)	(10,571)
CP Trucks	(1,279)	734	1,321	2,006
	13,438	39,511	11,745	43,714
Oil and Gas				
PanCanadian Petroleum Limited	55,344	44,129	37,833	57,209
Forest Products				
CIP Inc.	(6,312)	(3,471)	(4,435)	(2,417)
Great Lakes Forest Products Limited	1,833	(628)	(508)	(877)
Others	(8)	(3)	—	10
	(4,487)	(4,102)	(4,943)	(3,284)
Steel and Industrial Products				
The Algoma Steel Corporation, Limited	(2,867)	(2,200)	(2,454)	(61)
AMCA International Limited	1,404	1,825	1,491	1,443
	(1,463)	(375)	(963)	1,382
Real Estate				
Marathon Realty Company Limited	4,694	3,004	5,247	7,183
Other Businesses				
Canadian Pacific Hotels Corporation	3,807	3,881	10,375	(349)
Maple Leaf Mills Limited	1,285	(2,522)	3,539	4,810
Fording Coal Limited	2,788	1,843	509	2,230
CP Telecommunications	2,543	2,156	2,264	2,052
Syracuse China Corporation	532	1,248	922	1,734
Processed Minerals Incorporated	1,328	987	679	406
Steep Rock Resources Inc.	(5)	129	153	42
Others	215	253	132	362
	12,493	7,975	18,573	11,287
Financial and Miscellaneous				
Canadian Pacific Securities Limited	326	249	296	248
Corporate Activities	(5,573)	(3,685)	(7,287)	(12,320)
Others	254	365	110	585
	(4,993)	(3,071)	(6,881)	(11,487)
Discontinued Businesses				
Canadian Pacific Air Lines, Limited	(13,828)	(626)	6,917	(19,087)
Cominco Ltd.	(1,505)	3	(11,656)	(36,194)
Chateau Insurance Company	(801)	245	300	(31)
Others	263	239	(295)	—
	(15,871)	(139)	(4,734)	(55,312)
Net income before extraordinary items	59,155	86,932	55,877	50,692
Extraordinary items	—	—	—	—
Net Income	$ 59,155	$ 86,932	$ 55,877	$ 50,692

Results for each three month period presented have been restated to give retroactive effect to the change in accounting for Oil and Gas Properties (see Note 2 to the financial statements).

Ten-Year Summary

	1986	1985	1984	1983
(Dollars in millions, except per share amounts)				
Revenues				
Continuing Businesses	**$ 12,475.1**	$ 12,408.9	$ 11,754.1	$ 10,272.8
Discontinued Businesses	**2,545.0**	2,631.4	2,881.0	2,486.5
	$ 15,020.1	$ 15,040.3	$ 14,635.1	$ 12,759.3
Net income from:				
Transportation	**$ 93.3**	$ 108.4	$ 177.9	$ 121.4
Oil and Gas	**39.1**	194.5	172.1	141.1
Forest Products	**29.1**	(16.8)	(6.9)	(69.3)
Steel and Industrial Products	**(65.4)**	(1.4)	(27.3)	(65.5)
Real Estate	**28.9**	20.1	19.1	18.1
Other Businesses	**68.3**	50.3	43.9	35.6
Financial and Miscellaneous	**(5.6)**	(26.3)	(35.7)	(16.3)
Discontinued Businesses	**(37.6)**	(76.1)	23.1	(27.7)
Net income before extraordinary items	**150.1**	252.7	366.2	137.4
Extraordinary items	**(230.4)**	—	—	—
Net income	**$ (80.3)**	$ 252.7	$ 366.2	$ 137.4
Total assets	**$ 17,698.7**	$ 21,331.5	$ 18,670.7	$ 17,486.4
Total long term debt	**$ 5,114.7**	$ 6,683.5	$ 5,609.0	$ 5,536.4
Perpetual 4% Consolidated Debenture Stock	**184.6**	185.0	157.8	292.5
Minority shareholders' interest in subsidiary companies	**1,344.7**	2,031.7	2,981.3	2,660.2
Shareholders' equity	**5,781.9**	6,061.0	4,416.3	3,956.7
Total capitalization	**$ 12,425.9**	$ 14,961.2	$ 13,164.4	$ 12,445.8
Per Ordinary Share:				
Net income				
– before extraordinary items	**$ 0.50**	$ 1.14	$ 1.70	$ 0.63
– after extraordinary items	**$ (0.27)**	$ 1.14	$ 1.70	$ 0.63
Dividends	**$ 0.48**	$ 0.48	$ 0.47	$ 0.47
Number of Ordinary Shares (in millions)				
Actual	**299.5**	297.7	215.0	215.0
Average	**298.3**	220.8	215.0	215.0
Rates of Return:				
Average capital employed	**4.7%**	5.9%	7.7%	4.8%
Average shareholders' equity	**2.5%**	4.8%	8.3%	3.5%
Debt: equity proportion	**43:57**	46:54	44:56	47:53

	1982	1981	1980	1979	1978	1977
	$ 9,891.6	$ 9,768.1	$ 7,553.8	$ 6,008.8	$ 5,115.9	$ 3,548.8
	2,410.3	2,568.2	2,430.7	2,169.0	1,608.6	1,350.2
	$ 12,301.9	$ 12,336.3	$ 9,984.5	$ 8,177.8	$ 6,724.5	$ 4,899.0
	$ 106.9	$ 189.8	$ 188.2	$ 150.3	$ 96.5	$ 70.8
	141.2	115.7	154.7	101.3	85.1	74.2
	(68.7)	11.5	33.7	38.0	15.1	8.4
	(18.2)	66.4	45.2	47.9	34.0	15.0
	18.5	17.0	15.5	15.3	12.6	9.6
	39.7	38.0	32.6	27.7	(2.4)	14.8
	16.4	31.7	39.7	8.1	30.7	3.2
	(48.1)	5.3	73.0	105.9	51.5	33.6
	187.7	475.4	582.6	494.5	323.1	229.6
	—	—	—	—	—	—
	$ 187.7	$ 475.4	$ 582.6	$ 494.5	$ 323.1	$ 229.6
	$ 17,162.5	$ 16,220.5	$ 12,941.2	$ 10,906.0	$ 9,175.2	$ 7,580.4
	$ 5,538.7	$ 4,647.6	$ 2,997.5	$ 2,623.6	$ 2,454.2	$ 2,045.5
	292.5	292.5	292.5	292.5	292.5	292.5
	2,573.3	2,464.2	2,240.2	1,742.7	1,301.3	1,015.6
	3,901.3	3,840.2	3,444.2	2,909.6	2,521.9	2,263.5
	$ 12,305.8	$ 11,244.5	$ 8,974.4	$ 7,568.4	$ 6,569.9	$ 5,617.1
	$ 0.87	$ 2.20	$ 2.70	$ 2.29	$ 1.49	$ 1.06
	$ 0.87	$ 2.20	$ 2.70	$ 2.29	$ 1.49	$ 1.06
	$ 0.55	$ 0.63	$ 0.62	$ 0.57	$ 0.37	$ 0.32
	215.0	215.0	215.0	215.0	215.0	215.0
	215.0	215.0	215.0	215.0	215.0	215.0
	6.3%	10.6%	13.3%	13.7%	10.7%	8.7%
	4.8%	13.1%	18.3%	18.2%	13.5%	10.5%
	47:53	44:56	37:63	39:61	42:58	42:58

Geographic Distribution of Net Property Investment

at December 31, 1986	Properties, at Cost less Depreciation (in millions)	Percent of Total
Canada		
Atlantic Provinces	$ **368**	3
Quebec	**1,156**	9
Ontario	**3,002**	23
Manitoba	**269**	2
Saskatchewan	**470**	4
Alberta	**2,413**	19
British Columbia	**1,657**	13
N.W.T., Yukon & Offshore	**38**	—
Transportation Equipment	**972**	8
	10,345	81
Outside Canada		
United States	**2,202**	17
Other	**51**	—
Ocean Ships	**215**	2
	2,468	19
Total	$ **12,813**	100

Ordinary Share Market Prices

	Toronto Stock Exchange (Canadian dollars)				New York Stock Exchange (U.S. dollars)			
	1986		1985		**1986**		1985	
	High	Low	High	Low	High	Low	High	Low
First Quarter	**20½**	**16¼**	21¼	16⅛	**14⅝**	**11⅝**	15⅛	12¼
Second Quarter	**20⅛**	**16½**	21¾	18½	**14½**	**11⅞**	15¾	13½
Third Quarter	**17**	**14**	19⅞	15⅞	**12¼**	**10**	14⅝	11¾
Fourth Quarter	**18**	**15**	18⅞	15⅞	**13**	**10⅞**	13½	11⅝
Year	**20½**	**14**	21¾	15⅞	**14⅝**	**10**	15¾	11⅝

Transfer Agents

Montreal Trust Company
1690 Hollis Street
Halifax, N.S. B3J 3J9

53 King Street
Saint John, N.B. E2L 1G5

1 Place Ville Marie
777 Dorchester Boulevard West
Montreal, Quebec H3B 4A8

15 King Street West
Toronto, Ontario M5H 1B4

221 Portage Avenue
Winnipeg, Manitoba R3B 2A6

1778 Scarth Street
Regina, Saskatchewan S4P 2G1

411-8th Avenue, S.W.
Calgary, Alberta T2P 1E7

510 Burrard Street
Vancouver, B.C. V6C 3B9

Bank of Montreal Trust Company
2 Wall Street
New York, N.Y. 10005

Deputy Secretary,
Canadian Pacific Limited
Southside, 105 Victoria Street
London, England SW1E 6QT

Stock and Share Listings

Debenture Stock (Sterling) listed on:
London, Eng. Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Shares (Sterling) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Preference Shares (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Ordinary Shares listed on:
Montreal, Toronto, Alberta, Vancouver, New York and London, Eng. Stock Exchanges.

Share Holdings

The number of registered holdings of the voting shares of the Corporation at December 31, 1986 was 79,837.

The distribution by countries of total voting rights of the Ordinary and Preference Shares at that date was as follows:

Canada	69.79%
United States	25.49
United Kingdom	1.57
Other Countries	3.15
	100.00%

Dividend Reinvestment and Share Purchase Plan

Eligible holders of Canadian Pacific Limited Ordinary Shares may acquire new Ordinary Shares through reinvestment of cash dividends and/or investing optional cash payments, without paying brokerage commissions or administrative charges. A circular describing the Plan may be obtained by writing to the Vice-President and Secretary of the Corporation.

Shareholders having inquiries or wishing to obtain copies of the Corporation's non-consolidated (parent company) financial statements or its Form 10-K filed with the Securities and Exchange Commission should write to:

D.J. Deegan
Vice-President and Secretary
Canadian Pacific Limited
P.O. Box 6042, Station A
Montreal, Quebec
H3C 3E4

Board of Directors

Lloyd I. Barber, O.C., Ph.D.
President, University of Regina
Regina

Michel Bélanger
Chairman and Chief Executive Officer
National Bank of Canada, Montreal

F.S. Burbidge, O.C.
Former Chairman of the Board
Canadian Pacific Limited, Montreal

* **Robert W. Campbell**
Chairman, Canadian Pacific Limited
Calgary

M. James Fielding
Chairman of the Board
Alexander Centre Industries Limited
Sudbury

† **Thomas M. Galt**
Chairman and Chief Executive Officer
Sun Life Assurance Company
of Canada, Toronto

Allard Jiskoot
Director and Former Chairman
of the Board, Pierson, Heldring
& Pierson N.V., Amsterdam,
The Netherlands

A.S. Kingsmill, Q.C.
Partner, Law firm of Tilley,
Carson & Findlay, Toronto

* **C. Merv Leitch, Q.C.**
Partner, Law firm of Macleod Dixon
Calgary

The Hon. Peter Lougheed, P.C., C.C., Q.C.
Senior Partner, Law firm of Bennett
Jones, Calgary

Angus A. MacNaughton
President
Genstar Investment Corporation
San Francisco

Donald C. Matthews
President and General Manager
Highland Stock Farms Ltd.
Calgary

Stanley A. Milner
President and Chief Executive
Officer, Chieftain Development
Co. Ltd., Edmonton

William D. Mulholland
Chairman and Chief Executive
Officer, Bank of Montreal, Toronto

* **Paul L. Paré, O.C.**
Chairman, Imasco Limited
Montreal

*† **Claude Pratte, Q.C.**
Counsel, Law firm of Stein, Monast,
Pratte & Marseille, Quebec

*† **C. Douglas Reekie**
Vice-Chairman of the Board
CAE Industries Ltd., Toronto

† **Lucien G. Rolland, O.C.**
Chairman and Chief Executive
Officer, Rolland inc., Montreal

Thomas G. Rust
Chairman of the Board
Crown Forest Industries Limited
Vancouver

F.H. Sherman
Chairman and Chief Executive
Officer, Dofasco Inc., Hamilton

R.D. Southern
Deputy Chairman and Chief
Executive Officer, ATCO Ltd.
Calgary

* **W.W. Stinson**
President and Chief Executive
Officer, Canadian Pacific Limited
Montreal

Allan R. Taylor
Chairman and Chief Executive
Officer, The Royal Bank of Canada
Toronto

Jean Casselman Wadds, O.C.
Corporate Director, Former
Commissioner, Royal Commission
on the Economic Union and
Development Prospects for Canada
Ottawa

* **Ray D. Wolfe, C.M.**
Chairman and Chief Executive
Officer, The Oshawa Group Limited
Toronto

* Member of the Executive Committee
† Member of the Audit Committee

Officers

Robert W. Campbell
Chairman, Calgary

W.W. Stinson
President and Chief Executive
Officer, Montreal

K.S. Benson
Vice-President Personnel
and Administration, Montreal

J.P.T. Clough
Vice-President Finance
and Accounting, Montreal

D.J. Deegan
Vice-President and Secretary
Montreal

S.E. Eagles
Vice-President Corporate, Toronto

R.K. Gamey
Group Vice-President, Calgary

J.F. Hankinson
Group Vice-President, Calgary

C.R.O. Munro, Q.C.
Vice-President Law and General
Counsel, Montreal

D.E. Sloan
Treasurer, Toronto

J. Thomson
Comptroller, Montreal

Directorate

At the Annual Meeting of Shareholders held on May 7, 1986, Messrs. Clifford A. Fielding, W. Earle McLaughlin, O.C., J.H. Moore and The Rt. Hon. Lord Polwarth, T.D., D.L., retired. The directors desire to record their recognition of the significant contributions to the affairs of the Corporation made by these members of the Board during their respective tenures. On May 7, 1986, Mr. M. James Fielding was elected a director to replace Mr. Clifford A. Fielding, Mr. Allan R. Taylor was elected a director to replace Mr. McLaughlin and Mr. Michel Bélanger was elected a director to replace Mr. Moore. The Hon. John L. Nichol, O.C., resigned as a director, for personal reasons, effective January 12, 1987.

A copy of the 1986 annual report of each of the following companies can be obtained by writing to its Secretary at the address shown below:

Soo Line Corporation
Soo Line Building
Box 530
Minneapolis, Minnesota 55440

PanCanadian Petroleum Limited
PanCanadian Plaza
P.O. Box 2850
Calgary, Alberta
T2P 2S5

Great Lakes Forest Products Limited
P.O. Box 430
Thunder Bay, Ontario
P7C 4W3

The Algoma Steel Corporation, Limited
503 Queen Street East
Sault Ste. Marie, Ontario
P6A 5P2

AMCA International Limited
Dartmouth National Bank Building
Hanover, New Hampshire 03755

Marathon Realty Company Limited
Suite 1100, University Place
123 Front Street West
Toronto, Ontario
M5J 2M2

Maple Leaf Mills Limited
P.O. Box 710
Station K
Toronto, Ontario
M4P 2X5

Steep Rock Resources Inc.
Suite 302, North York Square
45 Sheppard Avenue East
North York, Ontario
M2N 5W9

Canadian Pacific Securities Limited
Suite 1400, University Place
123 Front Street West
Toronto, Ontario
M5J 2M8

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au vice-président et secrétaire, Canadien Pacifique Limitée, C.P. 6042, succursale A, Montréal, Québec, Canada H3C 3E4

Legal deposit, 1st quarter (1987)
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